

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

FORM 10-K

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

For the fiscal year ended September 30, 2017

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

For the transaction period from _____ to _____

Commission File number 000-30262



VISUALANT, INC.

(Exact name of registrant as specified in charter)

Nevada

(State or other jurisdiction of incorporation or organization)

90-0273142

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

500 Union Street, Suite 810, Seattle, Washington USA

(Address of principal executive offices)

98101

(Zip Code)

206-903-1351

(Registrant's telephone number, including area code)

N/A

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of March 31, 2017 (the last business day of our most recently completed second fiscal quarter), based upon the last reported trade on that date, the aggregate market value of the voting and non-voting common equity held by non-affiliates (for this purpose, all outstanding and issued common stock minus stock held by the officers, directors and known holders of 10% or more of the Company's common stock) was \$1,389,796.

The number of shares of common stock, \$.001 par value, issued and outstanding as of December 29, 2017: 4,655,486 shares

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PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements in this report reflect the good faith judgment of our management and these statements are based on facts and factors as we currently understand them. Forward-looking statements are subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, but are not limited to, those discussed below in "Risk Factors" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed elsewhere in this report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report.

ITEM 1. DESCRIPTION OF BUSINESS

BACKGROUND AND CAPITAL STRUCTURE

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

BUSINESS

We are focused on the development, marketing and sales 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.

Overview

For the past several years we have focused on the development of our proprietary ChromaID™ technology. Using light from low-cost LEDs (light emitting diodes) we map the color of substances, fluids and materials and with our proprietary processes we can authenticate, identify and diagnose based upon the color that is present. The color is both visible to us as humans but also outside of the humanly visible color spectrum in the near infra-red and near ultra-violet and beyond. Our ChromaID scanner sees what we like to call "Nature's Color Fingerprint." Everything in nature has a unique color identifier and with ChromaID we can see it, and identify, authenticate and diagnose based upon the color that is present. Our ChromaID scanner is capable of uniquely identifying and authenticating almost any substance or liquid using light to create, record and detect its unique color signature. While we will continue to develop and enhance our ChromaID technology and extend its capacity, we have moved into the commercialization phase of our Company as we begin to both work with partners and internally to create revenue generating products for the marketplace.

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 and beyond 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, verification and diagnostic 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 (shape and size) more suited to a laboratory setting and require trained laboratory personnel to interpret the information. The ChromaID technology uses lower cost LEDs and photodiodes and specific frequencies of light resulting in a more accurate, portable and easy-to-use solution for a wide variety of applications. The ChromaID technology not only has significant cost advantages as compared to spectrophotometry, it is also completely flexible in size, shape and configuration. The ChromaID scan head can range in size from endoscopic to a scale that could be the size of a large ceiling-mounted fluorescent light fixture.

In normal operation, a ChromaID master or reference scan is generated and stored in a database. We call this the ChromaID Reference Library. 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. Over time, we believe the ChromaID Reference Libraries can become a significant asset of the Company, providing valuable information in numerous fields of use.

We have pursued an active intellectual property strategy and have been granted eleven patents. We also have 20 patents pending. We possess all right, title and interest to the issued patents. Ten of the pending patents are licensed exclusively to us in perpetuity by our strategic partner, Allied Inventors, a spin off corporation from Intellectual Ventures, the large intellectual property fund.

ChromaID: A Foundational Platform Technology

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

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

The cornerstone of a company with a foundational platform technology is its intellectual property. We have pursued an active intellectual property strategy and has been granted eleven patents. We currently have 20 patents pending. We possess all right, title and interest to the issued patents. Ten of the pending patents are licensed exclusively to us in perpetuity by our strategic partner, Allied Inventors.

Our Patents

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

The issued patents cover the fundamental aspects of the Visualant ChromaID technology and a growing number of unique applications ranging, to date, from invisible bar codes to tissue and liquid analysis.

The patents that have been issued to Visualant and their dates of issuance are:

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

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

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

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

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

On November 12, 2013, we were issued US Patent No. 8,583,394 B2 entitled “Method, Apparatus and Article to Facilitate Distributed Evaluation of Objects Using Electromagnetic Energy by the United States Office of Patents and Trademarks. The patent expires July 31, 2027.

On November 21, 2014, we were issued US Patent No. 8,888,207 B2 entitled “Systems, Methods, and Articles Related to Machine-Readable Indicia and Symbols” by the United States Office of Patents and Trademarks. The patent expires February 7, 2033. This patent describes using ChromaID to see what we call invisible bar codes and other identifiers.

On March 23, 2015, we were issued US Patent No. 8,988,666 B2 entitled “Method, Apparatus, and Article to Facilitate Evaluation of Objects Using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires July 31, 2027.

On May 26, 2015, we were issued US Patent No. 9,041,920 B2 entitled “Device for Evaluation of Fluids using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires March 12, 2033. This patent describes a ChromaID fluid sampling devices.

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

On April 18, 2017, we were issued US Patent No. 9,625,371 B2 entitled “Method, Apparatus, and Article to Facilitate Evaluation of Substances Using Electromagnetic Energy.” The patent expires July 31, 2027. This patent pertains to the use of ChromaID technology for the identification and analysis of biological tissue. It has many potential applications in medical, industrial and consumer markets.

We continue to pursue a patent strategy to expand its unique intellectual property in the United States and other countries.

Joint Development Agreements and Product Strategy

We are currently undertaking internal development work on potential products for the consumer marketplace. This development work is being performed through our Consulting Agreement with Phil Bosua, who serves as our Chief Product Officer. As these products begin to take form, we will make appropriate product announcements.

We also will continue to engage with partners through licensing our ChromaID technology in various fields of use, entering in to joint venture agreements to develop specific applications, and in certain specific instances developing its own products for the marketplace.

We have deployed our ChromaID development kit to a number of potential joint venture partners and customers around the world. There are strong indications of interest in deploying our ChromaID technology in a wide variety of applications involving identification, authentication and diagnostics. We are focusing our current efforts on productizing the ChromaID technology as it moves out of the research laboratory and in to the marketplace. These efforts involve working on engineering issues necessary to provide consistent replicable results for customer end users.

Today, we currently have Joint Venture Agreements in place with Intellicheck and Biomedx for widely disparate applications. These two agreements have described in greater detail in our prior filings. The agreement with Intellicheck focuses upon developing applications for law enforcement, defense and homeland security applications which deal with identification and authentication. The agreement with Biomedx focuses upon developing applications for determining certain qualities of human skin which are diagnostic in nature. We believe that these agreements will lead to products in the marketplace and a generation of revenues over time.

Research and Development

Our research and development efforts are primarily focused improving the core foundational ChromaID technology, extending its capacity 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 current 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 \$79,405 and \$325,803 during the years ended September 30, 2017 and 2016, respectively, on development activities. On July 6, 2017, we entered into a Consulting Agreement with Phil Bosua, our Chief Product Officer, whereby Mr. Bosua can earn up to 200,000 shares of the Company’s company stock based on achieving certain product development and funding milestones.

THE COMPANY'S COMMON STOCK

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

PRIMARY RISKS AND UNCERTAINTIES

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

CORPORATE INFORMATION

We were incorporated under the laws of the State of Nevada on October 8, 1998. Our executive offices are located at 500 Union Street, Suite 810, Seattle, WA 98101. Our telephone number is (206) 903-1351 and its principal website address is located at www.visualant.net. The information on our website is not incorporated as a part of this Form 10-K.

EMPLOYEES

As of September 30, 2017, we had thirteen full-time employees and two consultants or consulting groups. Our senior management is located in the Seattle, Washington office.

WEBSITE ACCESS TO UNITED STATES SECURITIES AND EXCHANGE COMMISSION REPORTS

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

ITEM 1A. RISK FACTORS

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

We 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 January 31, 2018. 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. There can be no assurance that we will be able to sell that number of shares, if any.

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, 2017 contains an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern. Factors identified in the report include our historical net losses, negative working capital, and the need for additional financing to implement our business plan and service our debt repayments. If we are not able to attain profitability in the near future our financial condition could deteriorate further, which would have a material adverse impact on our business and prospects and result in a significant or complete loss of your investment. Further, we may be unable to pay our debt obligations as they become due, which include obligations to secured creditors. If we are unable to continue as a going concern, we might have to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements. Additionally, we are subject to customary operational covenants, including limitations on our ability to incur liens or additional debt, pay dividends, redeem stock, make specified investments and engage in merger, consolidation or asset sale transactions, among other restrictions. In addition, the inclusion of an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern and our lack of cash resources may materially adversely affect our share price and our ability to raise new capital or to enter into critical contractual relations with third parties.

As of September 30, 2017, we have a net working capital deficit of approximately \$4,099,000 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. On December 19, 2017, the Umpqua Loan maturity was extended to March 31, 2018 and provides for interest at 4.00% 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 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 December 31, 2017. The notes payable also provide for a second lien on our assets if not repaid by December 31, 2017 or converted into convertible debentures or equity on terms acceptable to the Mr. Erickson. We recorded accrued interest of \$58,167 as of September 30, 2017.

Mr. Erickson and/or entities with which he is affiliated also have advanced \$519,833 and have unreimbursed expenses and compensation of approximately \$450,679. We owe Mr. Erickson, or entities with which he is affiliated, \$1,570,511 as of September 30, 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 September 30, 2017, we had an accumulated deficit of \$31,534,000 and net losses in the amount of \$3,901,000 and \$1,746,000 for the years ended September 30, 2017 and 2016, 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 Allied Inventors. More recently, we have entered into a Collaboration Agreement and License with Intellicheck Mobilisa, Inc. and BioMedx Inc. None of these relationships have generated any significant revenue. Failure to develop and sell products based upon our ChromaID technology, 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. On July 6, 2017, we entered into a Consulting Agreement with Phil Bosua whereby Mr. Bosua can earn up to 200,000 shares of the Company's company stock based on achieving certain product development and funding milestones. 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, 2017, 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.

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

In November 2013, we entered into a five year strategic relationship with Allied Inventors, formerly Xinova and Invention Development Management Company, a former subsidiary of Intellectual Ventures, a private intellectual property fund with over \$5 billion under management. Allied Inventors 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. Allied Inventors has worked to expand the reach and the potential application of the ChromaID technology and has filed ten patents based on the ChromaID technology, which it has licensed to us.

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

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

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

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

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

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

We are dependent on key personnel.

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

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

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

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

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

There can be no assurance that:

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

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

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

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

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

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

Our TransTech vendor base is concentrated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In December 8, 2009, we entered into the Capital Source credit facility. On June 6, 2017, TransTech entered into the Fourth Modification to the Loan and Security Agreement.

This 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 \$0.25 per share, the exercise price of 23,334 outstanding shares of Series A Preferred Stock, 1,785,715 outstanding shares of Series C Preferred Stock and 1,016,004 outstanding shares Series D preferred Stock, would adjust below \$0.25 per share pursuant to the documents governing such instruments. In addition, the conversion price of a Convertible Note Payable of \$570,000 and the exercise price of outstanding warrants to purchase 3,782,616 shares of common stock would adjust below \$0.25 per share pursuant to the documents governing such instruments.

Risks Relating to Our Stock

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

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

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

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

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

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

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

As of September 30, 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 September 30, 2017, we had 4,655,486 shares of common stock issued and outstanding, held by 66 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 September 30, 2017, there were options outstanding for the purchase of 15,404 common shares, warrants for the purchase of 6,900,356 common shares, 2,825,053 shares of our common stock issuable upon the conversion of Series A, Series C and Series D Convertible Preferred Stock and up to 332,940 shares of our common stock issuable upon the exercise of placement agent warrants. In addition, we have an unknown number of shares are issuable upon conversion of convertible debentures of \$570,000. 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Corporate Offices

On April 13, 2017, the Company leased its executive office located at 500 Union Street, Suite 810, Seattle, Washington, USA, 98101. The Company leases 943 square feet and the net monthly payment is \$2,672. The monthly payment increases approximately 3% each year and the lease expires on May 31, 2022.

TransTech Facilities

TransTech is located at 12142 NE Sky Lane, Suite 130, Aurora, OR 97002. TransTech leases a total of approximately 6,340 square feet of office and warehouse space for its administrative offices, product inventory and shipping operations. Effective December 1, 2017, TransTech leases this office from December 1, 2017 at \$4,465 per month. The monthly payment increases approximately 3% each year and the lease expires on January 31, 2020. Until December 1, 2017, TransTech leased this office on a month to month basis at \$6,942 per month.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

This item is not applicable.

ITEM 5. OTHER INFORMATION

This item is not applicable.

PART II

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

Authorized Capital Stock

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

Voting Preferred Stock

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

Series A Preferred Stock

On July 21, 2015, we filed with the Nevada Secretary of State an Amended and Restated Certificate of Designations, Preferences and Rights for our Series A Convertible Preferred Stock. Among other things, the Amended and Restated Certificate changed the conversion price and the stated value of the Series A Preferred from \$0.10 (pre reverse stock split) to \$30.00 (post-reverse stock split), and added a provision adjusting the conversion price upon the occurrence of certain events.

Under the Amended and Restated Certificate, we had 11,667 shares of Series A Preferred authorized, all of which are outstanding. Each holder of outstanding shares of Series A Preferred is entitled to the number of votes equal to the number of whole shares of common stock into which the shares of Series A Preferred held by such holder are then convertible as of the applicable record date. We cannot amend, alter or repeal any preferences, rights, or other terms of the Series A Preferred so as to adversely affect the Series A Preferred, without the written consent or affirmative vote of the holders of at least 66% of the then outstanding shares of Series A Preferred, voting as a separate voting group, given by written consent or by vote at a meeting called for such purpose for which notice shall have been duly given to the holders of the Series A Preferred.

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

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

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

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

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

On August 14, 2017, the price of the Series A Preferred Stock and Series C Warrants were adjusted to \$0.25 per share pursuant to the documents governing such instruments.

Series C and D Preferred Stock and Warrants

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

On November 14, 2016, we 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, we 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 May 1, 2017, the Company issued 357,143 shares of Series D Convertible Preferred Stock 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.

On August 14, 2017, the price of the Series D Convertible Preferred Stock and a warrant were adjusted to \$0.25 per share pursuant to the documents governing such instruments.

Common Stock

We are authorized to issue up to 100,000,000 shares of common stock with a par value of \$0.001. As of September 30, 2017, we had 4,655,486 shares of common stock issued and outstanding, held by 66 shareholders of record. The number of shareholders, including beneficial owners holding shares through nominee names, is approximately 2,300. Each share of common stock entitles its holder to one vote on each matter submitted to the shareholders for a vote, and no cumulative voting for directors is permitted. Shareholders do not have any preemptive rights to acquire additional securities issued by us. As of September 30, 2017, there were options outstanding for the purchase of 15,404 common shares, warrants for the purchase of 6,900,356 common shares, 2,825,053 shares of our common stock issuable upon the conversion of Series A, Series C and Series D Convertible Preferred Stock and up to 332,940 shares of our common stock issuable upon the exercise of placement agent warrants. In addition, we have convertible debentures of \$570,000. All of which could potentially dilute future earnings per share.

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

Stock Incentive Plan

On April 29, 2011, our 2011 Stock Incentive Plan was approved at the Annual Stockholder Meeting. We were authorized to issue options for, and has reserved for issuance, up to 46,667 shares of common stock under the 2011 Stock Incentive Plan. On March 21, 2013, an amendment to the Stock Option Plan was approved by the stockholders of the Company, increasing the number of shares reserved for issuance under the Plan to 93,333 shares.

Anti-Takeover Provisions

Nevada Revised Statutes

Acquisition of Controlling Interest Statutes. Nevada's "acquisition of controlling interest" statutes contain provisions governing the acquisition of a controlling interest in certain Nevada corporations. These "control share" laws provide generally that any person who acquires a "controlling interest" in certain Nevada corporations may be denied certain voting rights, unless a majority of the disinterested stockholders of the corporation elects to restore such voting rights. These statutes provide that a person acquires a "controlling interest" whenever a person acquires shares of a subject corporation that, but for the application of these provisions of the Nevada Revised Statutes, would enable that person to exercise (1) one-fifth or more, but less than one-third, (2) one-third or more, but less than a majority or (3) a majority or more, of all of the voting power of the corporation in the election of directors. Once an acquirer crosses one of these thresholds, shares which it acquired in the transaction taking it over the threshold and within the 90 days immediately preceding the date when the acquiring person acquired or offered to acquire a controlling interest become "control shares" to which the voting restrictions described above apply. Our articles of incorporation and bylaws currently contain no provisions relating to these statutes, and unless our articles of incorporation or bylaws in effect on the tenth day after the acquisition of a controlling interest were to provide otherwise, these laws would apply to us if we were to (i) have 200 or more stockholders of record (at least 100 of which have addresses in the State of Nevada appearing on our stock ledger) and (ii) do business in the State of Nevada directly or through an affiliated corporation. As of September 30, 2017 we have less than 200 record stockholders. If these laws were to apply to us, they might discourage companies or persons interested in acquiring a significant interest in or control of the company, regardless of whether such acquisition may be in the interest of our stockholders.

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

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

Articles of Incorporation and Bylaws Provisions

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

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

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

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

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

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

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

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

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

Period Ended	High	Low
Year Ending September 30, 2017		
September 30, 2017	\$ 0.25	\$ 0.11
June 30, 2017	\$ 0.70	\$ 0.23
March 31, 2017	\$ 0.99	\$ 0.54
December 31, 2016	\$ 1.44	\$ 0.66
Year Ending September 30, 2016		
September 30, 2016	\$ 3.50	\$ 0.95
June 30, 2016	\$ 9.35	\$ 2.25
March 31, 2016	\$ 8.04	\$ 5.00
December 31, 2015	\$ 9.00	\$ 4.30

As of December 27, 2017, the high and low sales price of our common stock was \$0.23 per share and \$0.29 per share, respectively. As of December 29, 2017, there were 4,655,486 shares of common stock outstanding held by approximately 66 stockholders of record. This number does not include approximately 2,300 beneficial owners whose shares are held in the names of various security brokers, dealers and registered clearing agencies.

Transfer Agent

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

Dividend Policy

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

Recent Sales of Unregistered Securities

During the three months ended September 30, 2017, we had the following sales of unregistered sales of equity securities:

On the year ended September 30, 2017, the Company issued 795,000 shares of restricted common stock to two Named Executive Officers employees, two directors and six employees and consultants and for services during 2015-2017. The shares were issued in accordance with the 2011 Stock Incentive Plan and were valued at \$0.17 per share, the market price of our common stock. The Company expensed \$135,150 during the year ended September 30, 2017.

INFORMATION

The following table provides information as of September 30, 2017 related to the equity compensation plan in effect at that time.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
Equity compensation plan approved by shareholders	15,404	14.675	62,929
Equity compensation plans not approved by shareholders	-	-	-
Total	15,404	14.675	62,929

ITEM 6. SELECTED FINANCIAL DATA

Summary Financial Information

In the following table, we provide you with our selected consolidated historical financial and other data. We have prepared the consolidated selected financial information using our consolidated financial statements for the years ended September 30, 2017 and 2016. When you read this selected consolidated historical financial and other data, it is important that you read along with it the historical financial statements and related notes in our consolidated financial statements included in this report, as well as Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(dollars in thousands)

	Years Ended September 30,				
	2017	2016	2015	2014	2013
STATEMENT OF OPERATIONS DATA:					
Net revenue	\$ 4,874	\$ 6,024	\$ 6,291	\$ 7,983	\$ 8,573
Cost of goods sold	3,966	5,036	5,274	6,694	6,717
Gross profit	908	988	1,017	1,289	1,856
Research and development expenses	79	326	363	670	1,169
General and administrative expenses	3,088	3,355	2,984	3,180	4,581
Impairment of goodwill	984	-	-	-	-
Operating (loss)	(3,243)	(2,693)	(2,330)	(2,561)	(3,894)
Other expense	(658)	947	(271)	1,538	(2,741)
Net (loss)	(3,901)	(1,746)	(2,601)	(1,023)	\$ (6,635)
Income taxes current benefit	-	-	30	(6)	\$ (30)
Net (loss)	(3,901)	(1,746)	(2,631)	(1,017)	(6,605)
Noncontrolling interest	-	-	-	-	\$ 17
Net (loss) attributable to Visualant, Inc. and Subsidiaries common shareholders	<u>\$ (3,901)</u>	<u>\$ (1,746)</u>	<u>\$ (2,631)</u>	<u>\$ (1,017)</u>	<u>\$ (6,622)</u>
Net (loss) per share	<u>\$ (1.01)</u>	<u>\$ (1.22)</u>	<u>\$ (2.33)</u>	<u>\$ (1.24)</u>	<u>\$ (15.11)</u>
Weighted average number of shares	3,844,840	1,428,763	1,131,622	819,563	437,049

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

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

We are focused on the development, marketing and sales 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.

Overview

For the past several years we have focused on the development of our proprietary ChromaID™ technology. Using light from low-cost LEDs (light emitting diodes) we map the color of substances, fluids and materials and with our proprietary processes we can authenticate, identify and diagnose based upon the color that is present. The color is both visible to us as humans but also outside of the humanly visible color spectrum in the near infra-red and near ultra-violet and beyond. Our ChromaID scanner sees what we like to call "Nature's Color Fingerprint." Everything in nature has a unique color identifier and with ChromaID we can see it, and identify, authenticate and diagnose based upon the color that is present. Our ChromaID scanner is capable of uniquely identifying and authenticating almost any substance or liquid using light to create, record and detect its unique color signature. While we will continue to develop and enhance our ChromaID technology and extend its capacity, we have moved into the commercialization phase of our Company as we begin to both work with partners and internally to create revenue generating products for the marketplace.

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 and beyond 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, verification and diagnostic 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 (shape and size) more suited to a laboratory setting and require trained laboratory personnel to interpret the information. The ChromaID technology uses lower cost LEDs and photodiodes and specific frequencies of light resulting in a more accurate, portable and easy-to-use solution for a wide variety of applications. The ChromaID technology not only has significant cost advantages as compared to spectrophotometry, it is also completely flexible in size, shape and configuration. The ChromaID scan head can range in size from endoscopic to a scale that could be the size of a large ceiling-mounted fluorescent light fixture.

In normal operation, a ChromaID master or reference scan is generated and stored in a database. We call this the ChromaID Reference Library. 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. Over time, we believe the ChromaID Reference Libraries can become a significant asset of the Company, providing valuable information in numerous fields of use.

We have pursued an active intellectual property strategy and have been granted eleven patents. We also have 20 patents pending. We possess all right, title and interest to the issued patents. Ten of the pending patents are licensed exclusively to us in perpetuity by our strategic partner, Allied Inventors, a spin off corporation from Intellectual Ventures, the large intellectual property fund.

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

RESULTS OF OPERATIONS

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

(dollars in thousands)

	Years Ended September 30,			
	2017	2016	\$ Variance	% Variance
Revenue	\$ 4,874	\$ 6,024	\$ (1,150)	-19.1%
Cost of sales	3,966	5,036	(1,070)	21.2%
Gross profit	908	988	(80)	-8.1%
Research and development expenses	79	326	(247)	75.8%
Selling, general and administrative expenses	3,088	3,355	(267)	8.0%
Impairment of goodwill	984	-	-	-100.0%
Operating loss	(3,243)	(2,693)	434	16.1%
Other (expense) income:				
Interest expense	(377)	(324)	(53)	-16.4%
Other (expense)	(63)	(11)	(52)	-472.7%
(Loss) gain on change- derivative liability warrants	(218)	2,560	(2,778)	-108.5%
(Loss) on conversion of debt	-	(1,278)	1,278	100.0%
Total other (expense) income	(658)	947	(1,605)	-169.5%
Income before income taxes	(3,901)	(1,746)	(1,171)	-67.1%
Income taxes - current (benefit)	-	-	-	0.0%
Net (loss)	(3,901)	(1,746)	(1,171)	-67.1%

Sales

Net revenue for the year ended September 30, 2017 decreased \$1,150,000 to \$4,874,000 as compared to \$6,024,000 for the year ended September 30, 2016. The decrease was due to lower sales by TransTech resulting from a reduction in product sales and a large sale in 2016 that was not repeated in 2017.

Cost of Sales

Cost of sales for the year ended September 30, 2017 decreased \$1,070,000 to \$3,966,000 as compared to \$5,036,000 for the year ended September 30, 2016. The decrease was due to lower sales by TransTech resulting from a reduction in product sales and a large sale in 2016 that was not repeated in 2017.

Gross profit was \$908,000 for the year ended September 30, 2017 as compared to \$988,000 for the year ended September 30, 2016. Gross profit was 18.6% for the year ended September 30, 2017 as compared to 16.4% for the year ended September 30, 2016.

Research and Development Expenses

Research and development expenses for the year ended September 30, 2017 decreased \$247,000 to \$79,000 as compared to \$326,000 for the year ended September 30, 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 year ended September 30, 2017 decreased \$267,000 to \$3,088,000 as compared to \$3,355,000 for the year ended September 30, 2016.

The decrease primarily was due to (i) decreased business development and investor relation expenses of \$112,000; (ii) reduced consulting expenses of \$107,000; (iii) decreased amortization expense of \$71,000; (iv) decreased payroll expenses of \$69,000; (v) decreased legal expenses of \$46,000; (vi) decreased other expenses of \$46,000; offset by (vii) increased bad debt losses on accounts receivable of \$136,000; and (viii) increased marketing expenses of \$48,000. As part of the selling, general and administrative expenses for the year ended September 30, 2017, we incurred investor relation expenses and business development expenses of \$692,000.

Impairment of Goodwill

Our TransTech business is very capital intensive. We reviewed TransTech's operations based on its overall financial constraints and determined the value has been impaired. We recorded an impairment of goodwill associated with TransTech of \$984,000 during the year September 30, 2017.

Other Income (Expense)

Other expense for the year ended September 30, 2017 was \$658,000 as compared to other income of \$947,000 for the year ended September 30, 2016. The other expense for the year ended September 30, 2017 included (i) change in the value of derivatives of \$218,000; (ii) interest expense of \$377,000; (iii) other expense of \$63,000. The decrease is a result of the decline of the derivative liability as our underlying stock price has declined and conversion of interest and amortization of debt discount of \$227,000.

The other income for the year ended September 30, 2016 included change in the value of derivatives of \$2,560,000, offset by the loss on the retirement of debt of \$1,278,000, interest expenses of \$324,000 and other expenses of \$11,000. The gain on the value of the derivative instruments is a result of the decline of the derivative liability as our underlying stock price has declined.

Net (Loss)

Net loss for the year ended September 30, 2017 was \$3,901,000 as compared to \$1,746,000 for the year ended September 30, 2016. The net loss for the year ended September 30, 2017, included non-cash expenses of non-cash items of \$2,397,000. The non-cash items include (i) depreciation and amortization of \$81,000; (ii) issuance of capital stock for services and expenses of \$548,000; (iii) stock based compensation of \$38,000; (iv) bad debt losses and provision on loss on accounts receivable of \$141,000; (v) impairment of goodwill of \$984,000; (vi) loss on sale of assets \$113,000; (vii) conversion of interest and amortization of debt discount of \$227,000; and (viii) reclassification of derivative liability of \$410,000; offset by (ix) loss on change- derivative liability warrants of \$145,000. TransTech's net loss from operations was (\$256,000) for the year ended September 30, 2017 as compared to (\$192,000) for the year ended September 30, 2016.

The net loss for the year ended September 30, 2016, included non-cash income of \$956,000, including (i) gain on change- derivative liability warrants of \$2,560,000, offset by (ii) other of \$34,000, (iii) depreciation and amortization of \$179,000; (iv) stock based compensation of \$46,000; (v) share and warrant issuances of \$395,000; (vi) loss on conversion of preferred stock \$675,695; (vii) loss on settlement of debt \$97,037; (viii) loss on termination of stock purchase agreement \$505,000; (ix) amortization of debt discounts \$299,412.

LIQUIDITY AND CAPITAL RESOURCES

We had cash of approximately \$103,000 and net working capital deficit of approximately \$4,099,000 as of September 30, 2017. We have experienced net losses since inception and we expect losses to continue as we commercialize our ChromaID™ technology. As of September 30, 2017, we had an accumulated deficit of \$31,534,000 and net losses in the amount of \$3,901,000 and \$1,746,000 for the years ended September 30, 2017 and 2016, respectively. We believe that our cash on hand will be sufficient to fund our operations through January 31, 2018.

The opinion of our independent registered public accounting firm on our audited financial statements as of and for the year ended September 30, 2017 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 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 June 6, 2017, TransTech entered into the Fourth Modification to the Loan and Security Agreement. This secured credit facility was renewed until June 12, 2018 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 \$500,000. 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 \$365,725 (\$16,000 available) as of September 30, 2017 must be repaid by the time the secured credit facility expires on June 12, 2018, or the Company renews by automatic extension for the next successive one year term.

Operating Activities

Net cash used in operating activities for the year ended September 30, 2017 was \$1,264,000. This amount was primarily related to (i) a net loss of \$3,901,000; offset by (ii) a decrease in accounts receivable and prepaid expenses of \$27,000; (iii) a decrease in inventory of \$69,000; (iv) an increase in accounts payable, accrued expenses and deferred revenue of \$198,000; (v) non-cash expenses of non-cash items of \$2,397,000. The non-cash items include (i) depreciation and amortization of \$81,000; (ii) issuance of capital stock for services and expenses of \$548,000; (iii) stock based compensation of \$38,000; (iv) bad debt losses and provision on loss on accounts receivable of \$141,000; (v) impairment of goodwill of \$984,000; (vi) loss on sale of assets \$113,000; (vii) conversion of interest and amortization of debt discount of \$227,000; and (viii) reclassification of derivative liability of \$410,000; offset by (ix) loss on change- derivative liability warrants of \$145,000.

Financing Activities

Net cash provided by financing activities for the year ended September 30, 2017 was \$1,145,000. This amount was primarily related to (i) proceeds from convertible notes of \$690,000; (ii) proceeds from the sale of common and preferred stock of \$550,000; and (iii) proceeds from line of credit of \$30,000; offset by (iv) repayment of convertible notes of \$125,000.

Our contractual cash obligations as of September 30, 2017 are summarized in the table below:

Contractual Cash Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	Greater Than 5 Years
Operating leases	\$ 268,776	\$ 75,726	\$ 136,940	\$ 56,110	\$ -
Convertible notes payable	570,000	570,000	-	-	-
Notes payable	1,165,660	1,165,660	-	-	-
Capital expenditures	100,000	20,000	40,000	40,000	-
	<u>\$ 2,104,436</u>	<u>\$ 1,831,386</u>	<u>\$ 176,940</u>	<u>\$ 96,110</u>	<u>\$ -</u>

Off-Balance Sheet Arrangements

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Inventories – Inventories consist primarily of printers and consumable supplies, including ribbons and cards, badge accessories, capture devices, and access control components held for resale and are stated at the lower of cost or market on the first-in, first-out (“FIFO”) method. Inventories are considered available for resale when drop shipped and invoiced directly to a customer from a vendor, or when physically received by TransTech at a warehouse location. We record a provision for excess and obsolete inventory whenever an impairment has been identified. There is a \$35,000 and \$25,000 reserve for impaired inventory as of September 30, 2017 and 2016, respectively.

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

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

Stock Based Compensation – We have share-based compensation plans under which employees, consultants, suppliers and directors may be granted restricted stock, as well as options to purchase shares of our common stock at the fair market value at the time of grant. Stock-based compensation cost is measured by us at the grant date, based on the fair value of the award, over the requisite service period. For options issued to employees, we recognize stock compensation costs utilizing the fair value methodology over the related period of benefit. Grants of stock options and stock to non-employees and other parties are accounted for in accordance with the ASC 505.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

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

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 September 30, 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 2018, 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 late required Form 8-K and Form D SEC filings from April 1, 2017 to August 14, 2017. In addition, we believe there is a lack of segregation of duties over financial reporting. The Company is strengthening financial personnel and using a consultant to ensure accurate and timely financial reporting.

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

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

Management assessed the effectiveness of the Company’s internal control over financial reporting as of September 30, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control-Integrated Framework*. Based on its evaluation, management has concluded that the Company’s internal control over financial reporting was not effective as of September 30, 2017.

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

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

c) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting in the fiscal year ended September 30, 2017, which were identified in connection with our management’s evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There were no disclosures of any information required to be filed on Form 8-K during the three months ended September 30, 2017 that were not filed.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

Name	Age	Director/ Executive Officer
Directors-		
Ronald P. Erickson	73	Chairman of the Board, Chief Executive Officer and President (1) Interim Chief Financial Officer
Jon Pepper	66	Director (2)
Ichiro Takesako	58	Director
Executive Officers-		
Todd Martin Sames	63	Executive Vice President of Business Development

(1) Chairman of the Nomination and Governance Committee.

(2) Chairman of the Audit and Compensation Committees.

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

Background and Business Experience

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

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

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

Ichiro Takesako has served as a director since December 28, 2012. Mr. Takesako has held executive positions with Sumitomo Precision Products Co., Ltd or Sumitomo since 1983. Mr. Takesako graduated from Waseda University, Tokyo, Japan where he majored in Social Science and graduated with a Degree of Bachelor of Social Science.

In the past few years, Mr. Takesako has held the following executive position in Sumitomo and its affiliates:

June 2008:	appointed as General Manager of Sales and Marketing Department of Micro Technology Division
April 2009:	appointed as General Manager of Overseas Business Department of Micro Technology Division, in charge of M&A activity of certain business segment and assets of Aviza Technology, Inc.
July 2010:	appointed as Executive Director of SPP Process Technology Systems, 100% owned subsidiary of Sumitomo Precision Products then, stationed in Newport, Wales
August 2011:	appointed as General Manager, Corporate Strategic Planning Group
January 2013:	appointed as Chief Executive Officer of M2M Technologies, Inc., a company invested by Sumitomo Precision products
April 2013:	appointed as General Manager of Business Development Department, in parallel of CEO of M2M Technologies, Inc.
April 2014:	relieved from General Manager of Business Development Department and is responsible for M2M Technologies Inc. as its CEO
March 2017:	Established own company, At Signal, Inc., and taking over the business and technologies previously held by M2M Technologies, retired from Sumitomo Precision Products

Mr. Takesako was appointed as a Director based on his position with Sumitomo and Sumitomo's significant partnership with the Company. After Sumitomo decided to exit from relationship, Mr. Takesako remains as board member.

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

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

Other Executive Officers

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

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

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

Family Relationships

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

Involvement in Certain Legal Proceedings

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

- Had any petition under the federal bankruptcy laws or any state insolvency law filed by or against, or had a receiver, fiscal agent, or similar officer appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;
- Been convicted in a criminal proceeding or a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);
- Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:
 - Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;
 - Engaging in any type of business practice; or
 - Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws;

- Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any federal or state authority barring, suspending, or otherwise limiting for more than 60 days the right of such person to engage in any activity described in (i) above, or to be associated with persons engaged in any such activity;
- Been found by a court of competent jurisdiction in a civil action or by the SEC to have violated any federal or state securities law, where the judgment in such civil action or finding by the SEC has not been subsequently reversed, suspended, or vacated; or
- Been found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, where the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended, or vacated.

Board Committees

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

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

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee during the fiscal year ended September 30, 2017 served as an officer, former officer, or employee of the Company or participated in a related party transaction that would be required to be disclosed in this prospectus. Further, during this period, no executive officer of the Company served as:

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

Code of Ethics

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

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

This Compensation Discussion and Analysis describes the material elements of compensation awarded to, earned by or paid to each of our executive officers named in the Compensation Table on page 31 under “Remuneration of Executive Officers” (the “Named Executive Officers”) who served during the year ended September 30, 2017. This compensation discussion primarily focuses on the information contained in the following tables and related footnotes and narrative for the last completed fiscal year. We also describe compensation actions taken after the last completed fiscal year to the extent that it enhances the understanding of our executive compensation disclosure. The principles and guidelines discussed herein would also apply to any additional executive officers that the Company may hire in the future.

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

Compensation Philosophy and Objectives

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

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

Role of Chief Executive Officer in Compensation Decisions

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

Setting Executive Compensation

The Compensation Committee believes that compensation for the Company's executive officers must be managed to what we can afford and in a way that allows for us to meet our goals for overall performance. During 2017 and 2016, the Compensation Committee and the Board compensated its Chief Executive Officer with an annual salary of \$180,000 effective June 1, 2012. During 2017 and 2016, the Committee compensated its Chief Financial Officer with an annual salary of \$120,000 effective June 1, 2012. This compensation reflected the financial condition of the Company. Other Named Executive Officers were paid by us during 2017 and 2016. The Compensation Committee does not use a peer group of publicly-traded and privately-held companies in structuring the compensation packages.

Executive Compensation Components for the Year Ended September 30, 2017

The Compensation Committee did not use a formula for allocating compensation among the elements of total compensation during the year that ended on September 30, 2017. The Compensation Committee believes that in order to attract and retain highly effective people it must maintain a flexible compensation structure. For the year that ended on September 30, 2017, the principal components of compensation for named executive officers were base salary.

Base Salary

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

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

Performance-Based Incentive Compensation

The Compensation Committee believes incentive compensation reinforces performance objectives, rewards superior performance and is consistent with the enhancement of stockholder value. All of the Company's Named Executive Officers are eligible to receive performance-based incentive compensation. The Compensation Committee did not recommend or approve payment of any performance-based incentive compensation to the Named Executive Officers during the year ended September 30, 2017 based on our financial condition.

Ownership Guidelines

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

Stock Option Program

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

The Stock Option Program assists us by:

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

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

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

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

The Named Executive Officers did not receive stock grants and option awards during the year ended September 30, 2017.

Retirement and Other Benefits

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

Perquisites and Other Personal Benefits

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

Entry into Employment Agreement with Ronald P. Erickson, Chief Executive Officer

On August 4, 2017, the Board of Directors approved an Employment Agreement with Ronald P. Erickson pursuant to which the we engaged Mr. Erickson as our Chief Executive Officer through June 30, 2018.

Mr. Erickson's annual compensation is \$180,000. Mr. Erickson is also entitled to receive an annual bonus and equity awards compensation as approved by the Board. The bonus should be paid no later than 30 days following earning of the bonus.

Mr. Erickson will be entitled to participate in all group employment benefits that are offered by us to our senior executives and management employees from time to time, subject to the terms and conditions of such benefit plans, including any eligibility requirements.

If we terminate Mr. Erickson's employment at any time prior to the expiration of the Term without Cause, as defined in the Employment Agreement, or if Mr. Erickson terminates his employment at any time for "Good Reason" or due to a "Disability", Mr. Erickson will be entitled to receive (i) his Base Salary amount for one year; and (ii) medical benefits for eighteen months.

Tax and Accounting Implications

Deductibility of Executive Compensation

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

Accounting for Stock-Based Compensation

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

COMPENSATION COMMITTEE REPORT

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

THE COMPENSATION COMMITTEE

Jon Pepper, Chairman

EXECUTIVE COMPENSATION

REMUNERATION OF EXECUTIVE OFFICERS

The following table provides information concerning remuneration of the chief executive officer, the chief financial officer and another named executive officer for the fiscal years ended September 30, 2017 and 2016:

Summary Compensation Table

Name	Principal Position		Salary (\$)	Bonus (\$)	Stock Awards (\$) (4)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Salary-								
Ronald P. Erickson (1)	Chief Executive Officer and Interim Chief Financial Officer	9/30/2017	\$ 180,000	\$ -	\$ 34,000	\$ -	\$ -	\$ 214,000
		9/30/2016	\$ 180,000	\$ -	\$ -	\$ -	\$ -	\$ 180,000
Jeff T. Wilson (2)	Former Chief Financial Officer	9/30/2017	\$ 87,500	\$ -	\$ -	\$ -	\$ -	\$ 87,500
		9/30/2016	\$ 8,300	\$ -	\$ -	\$ -	\$ -	\$ 8,300
Todd Martin Sames (3)	Executive Vice President of Business Development	9/30/2017	\$ 120,000	\$ -	\$ 25,500	\$ -	\$ -	\$ 145,500
		9/30/2016	\$ 120,000	\$ -	\$ -	\$ -	\$ -	\$ 120,000

(1) During the years ended September 30, 2017 and 2016, Mr. Erickson was compensated at a monthly salary of \$15,000. As of September 30, 2017 and 2016, Mr. Erickson had accrued but unpaid salary of \$7,500 and \$105,000, respectively. This accrual was based on the tight cash flow of the Company and agreed to by Mr. Erickson, but there was no formal deferral agreement. There was no accrued interest paid on the unpaid salary. The 200,000 of restricted common stock was issued on September 7, 2017 to Mr. Erickson at the grant date market value of \$0.17 per share.

(2) During the period October 1, 2016 to May 15, 2017, Mr. Wilson was compensated at a monthly salary of \$10,000. During the period May 16, 2017 to July 31, 2017, Mr. Wilson was compensated at a monthly rate of \$5,000. As of September 30, 2017, Mr. Wilson had alleged unpaid compensation of \$12,500. During the period from September 6, 2016 to September 30, 2016, Mr. Wilson was paid \$8,300. Mr. Wilson was appointed Chief Financial Officer on September 6, 2016 and he departed July 31, 2017.

(3) During the year ended September 30, 2017 and 2016, Mr. Sames was compensated at a monthly salary of \$10,000. As of September 30, 2017 and 2016, Mr. Sames had accrued but unpaid salary of \$10,000 and \$25,000, respectively. This accrual was based on the tight cash flow of the Company and agreed to by Mr. Sames, but there was no formal deferral agreement. There was no accrued interest paid on the unpaid salary. The 150,000 of restricted common stock was issued on September 7, 2017 to Mr. Sames at the grant date market value of \$0.17 per share.

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

Grants of Stock Based Awards in Fiscal Year Then Ended September 30, 2017

The Compensation Committee approved the following performance-based incentive compensation to the Named Executive Officers during the year ended September 30, 2017.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards; Number of Shares of Stock or Units (#)	All Other Option Awards; Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh) (4)	Grant Date Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Ronald P. Erickson (1)		\$ -	\$ -	\$ -	300,000	300,000	300,000	200,000	-	\$ 0.170	\$ 34,000
Jeff T Wilson (2)		\$ -	\$ -	\$ -	-	-	-	-	-	\$ -	\$ -
Todd Martin Sames (3)		\$ -	\$ -	\$ -	100,000	100,000	100,000	150,000	-	\$ 0.170	\$ 25,500

(1) The restricted common stock was issued on September 7, 2017 to Mr. Erickson at the grant date market value of \$0.17 per share. The estimated future payments include 100,000 shares to be issued on January 1, 2018, 2019 and 2020.

(2) Mr. Wilson was appointed Chief Financial Officer on September 6, 2016 and he departed July 31, 2017.

(3) The restricted common stock was issued on September 7, 2017 to Mr. Sames at the grant date market value of \$0.17 per share. The estimated future payments include 66,667 shares to be issued on January 1, 2018, 2019 and 2020.

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

Outstanding Equity Awards as of Fiscal Year Then Ended September 30, 2017

Our Named Executive Officers did not have any outstanding equity awards as of September 30, 2017.

Option Exercises and Stock Vested

Our Named Executive Officers the following stock vested options during the year ended September 30, 2017.

Option Exercises and Stock Vested

Our Named Executive Officers the following stock vested options during the year ended September 30, 2017.

Name	Option Awards		Stock Awards (4)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Ronald P. Erickson (1)	-	\$ -	200,000	\$ 34,000
Jeff T. Wilson (2)	-	\$ -	-	\$ -
Todd Martin Sames (3)	-	\$ -	150,000	\$ 25,500

(1) The restricted common stock was issued on September 7, 2017 to Mr. Erickson at the grant date market value of \$0.17 per share.

(2) Mr. Wilson was appointed Chief Financial Officer on September 6, 2016 and he departed July 31, 2017.

(3) The restricted common stock was issued on September 7, 2017 to Mr. Sames at the grant date market value of \$0.17 per share.

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

Pension Benefits

We do not provide any pension benefits.

Nonqualified Deferred Compensation

We do not have a nonqualified deferral program.

Employment Agreements

We have an employment agreement with Ronald P. Erickson.

Potential Payments upon Termination or Change in Control

We have the following potential payments upon termination or change in control with Ronald P. Erickson:

Executive Payments Upon Separation	For Cause Termination on 9/30/17	Early or Normal Retirement on 9/30/17	Not For Good Cause Termination on 9/30/17	Change in Control Termination on 9/30/17	Disability or Death on 9/30/17
Compensation:					
Base salary (1)	\$ -	\$ -	\$ 180,000	\$ 180,000	\$ -
Performance-based incentive compensation (2)	\$ -	\$ -	\$ 51,000	\$ 51,000	\$ -
Stock options	\$ -	\$ -	\$ -	\$ -	\$ -
Benefits and Perquisites:					
Health and welfare benefits (3)	\$ -	\$ -	\$ 41,886	\$ 41,886	\$ -
Accrued vacation pay	\$ -	\$ -	\$ 34,615	\$ 34,615	\$ -
Total	\$ -	\$ -	\$ 307,501	\$ 307,501	\$ -

(1) Reflects a salary for one year.

(2) Reflects the vesting of estimated future payments includes 100,000 shares to be issued on January 1, 2018, 2019 and 2020 valued at \$0.17 per share.

(3) Reflects the cost of medical benefits for eighteen months.

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

DIRECTOR COMPENSATION

We primarily use stock options grants to incentive compensation to attract and retain qualified candidates to serve on the Board. This compensation reflected the financial condition of the Company. In setting director compensation, we consider the significant amount of time that Directors expend in fulfilling their duties to the Company as well as the skill-level required by our members of the Board. During year then ended September 30, 2017, Ronald Erickson did not receive any compensation for his service as a director. The compensation disclosed in the Summary Compensation Table on page 31 represents the total compensation for Mr. Erickson.

Compensation Paid to Board Members

Our independent non-employee directors are not compensated in cash. The only compensation generally has been in the form of stock awards. There is no formal stock compensation plan for independent non-employee directors. Our non-employee directors received the following compensation during the year ended September 30, 2017.

Name	Stock Awards (3)	Option Awards	Other Compensation	Total
Jon Pepper (1)	\$ 25,500	\$ -	\$ -	\$ 25,500
Ichiro Takesako (2)	17,000	-	-	17,000
	-	-	-	-
Total	\$ 42,500	\$ -	\$ -	\$ 42,500

(1) The restricted common stock was issued on September 7, 2017 to Mr. Pepper at the grant date market value of \$0.17 per share.

(2) The restricted common stock was issued on September 7, 2017 to Mr. Pepper at the grant date market value of \$0.17 per share.

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

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

The following table sets forth certain information regarding the ownership of our common stock as of September 30, 2017 by:

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

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

Unless otherwise indicated below, each beneficial owner named in the table has sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. The address for each person shown in the table is c/o Visualant, Inc. 500 Union Street, Suite 810, Seattle Washington, unless otherwise indicated.

	Shares Beneficially Owned	
	Amount	Percentage
Directors and Officers-		
Ronald P. Erickson (1)	358,085	7.7%
Jon Pepper (3)	163,000	3.5%
Todd Martin Sames (4)	151,667	3.3%
Ichiro Takesako (5)	115,385	2.5%
Jeffrey T. Wilson (2)	-	-
Total Directors and Officers (5 in total)	<u>788,137</u>	<u>16.9%</u>

* Less than 1%.

(1) Includes 355,086 shares of shares of common stock beneficially owned.

(2) Mr. Wilson was appointed Chief Financial Officer on September 6, 2016 and he departed July 31, 2017. Mr. Wilson does not have any beneficial ownership.

(3) Includes 163,000 shares of shares of common stock beneficially owned by Mr. Pepper.

(4) Includes 151,667 shares of shares of common stock beneficially owned by Mr. Sames.

(5) Includes 115,385 shares of shares of common stock beneficially owned by Ichiro Takesako.

	Shares Beneficially Owned	
	Amount	Percentage
Greater Than 5% Ownership		
Clayton A. Struve (1)	9,323,438	66.7%
	Blocker at 4.99%	
Dale Broadrick (2)	2,166,819	37.6%
Special Situations Technology Funds, L.P./ Adam Stettner (3)	318,000	6.5%
	Blocker at 9.99%	

(1) Reflects the shares beneficially owned by Clayton A. Struve. This total includes Preferred Stock that converts into 2,801,709 shares of common stock, a warrant to purchase 4,241,719 shares of common stock and Convertible notes of \$570,000 that convert into 2,280,000 shares of common stock. The address of Clayton A. Struve is 175 West Jackson Blvd, Suite 440, Chicago, Illinois.

(2) Reflects the shares beneficially owned by Dale Broadrick. This total includes 1,053,801 shares and a total of 1,113,018 Warrants to purchase shares of our common stock. The address of Dale Broadrick is 3003 Brick Church Pike, Nashville, Tennessee.

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

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

Related Party Transactions

Related party transactions for the year ended September 30, 2017 are detailed below and in the Footnotes to this Annual Report on Form 10-K.

Review and Approval of Related Person Transactions

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

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

Director Independence

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

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since October 1, 2014, we have engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities and affiliates, or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

Policies and Procedures for Related Person Transactions

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

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

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

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

Services and License Agreement Allied Inventors, L.L.C.

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

We have received a worldwide, nontransferable, exclusive license to the intellectual property developed under the Allied Inventors agreement during the term of the agreement, and solely within the identification, authentication and diagnostics field of use, to (a) make, have made, use, import, sell and offer for sale products and services; (b) make improvements; and (c) grant sublicenses of any and all of the foregoing rights (including the right to grant further sublicenses).

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

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

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

In connection with the original license agreement, we issued a warrant to purchase 97,169 shares of common stock to Allied Inventors as consideration for the exclusive intellectual property license and application development services. The warrant has a current exercise price of \$0.25 per share and expires November 10, 2018. The per share price is subject to adjustment based on any issuances below \$0.25 per share except as described in the warrant.

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

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

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

Related Party Transactions with Ronald P. Erickson

We have a \$199,935 Business Loan Agreement with Umpqua Bank. On December 19, 2017, the Umpqua Loan maturity was extended to March 31, 2018 and provides for interest at 4.00% 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 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 December 31, 2017. The notes payable also provide for a second lien on our assets if not repaid by December 31, 2017 or converted into convertible debentures or equity on terms acceptable to the Mr. Erickson. We recorded accrued interest of \$58,167 as of September 30, 2017.

Mr. Erickson and/or entities with which he is affiliated also have advanced \$519,833 and have unreimbursed expenses and compensation of approximately \$450,679. We owe Mr. Erickson, or entities with which he is affiliated, \$1,570,511 as of September 30, 2017.

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

On August 4, 2017, the Board of Directors approved an Employment Agreement with Ronald P. Erickson pursuant to which we engaged Mr. Erickson as the Company's Chief Executive Officer through June 30, 2018.

Stock Issuances to Named Executive Officers and Directors

On September 7, 2017, the Company issued 600,000 shares of restricted common stock to two Named Executive Officers employees and two directors for services during 2015-2017. The shares were issued in accordance with the 2011 Stock Incentive Plan and were valued at \$0.17 per share, the market price of our common stock. The Company expensed \$102,000 during the year ended September 30, 2017.

Stock Option Grant Cancellations

During the year ended September 30, 2017, two Named Executive Officers forfeited stock option grants for 35,366 shares of common stock at \$19.53 per share.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Committee Pre-Approval Policy

The Audit Committee has established a pre-approval policy and procedures for audit, audit-related and tax services that can be performed by the independent auditors without specific authorization from the Audit Committee subject to certain restrictions. The policy sets out the specific services pre-approved by the Audit Committee and the applicable limitations, while ensuring the independence of the independent auditors to audit the Company's financial statements is not impaired. The pre-approval policy does not include a delegation to management of the Audit Committee's responsibilities under the Exchange Act. During the year ended September 30, 2017, the Audit Committee pre-approved all audit and permissible non-audit services provided by our independent auditors.

Service Fees Paid to the Independent Registered Public Accounting Firm

The Audit Committee engaged SD Mayer and Associates, LLP to perform an annual audit of the Company's financial statements for the fiscal years ended September 30, 2017 and 2016. The following is the breakdown of aggregate fees paid to auditors for the Company for the last two fiscal years:

	Year Ended September 30, 2017	Year Ended September 30, 2016
Audit fees	\$ 41,399	\$ 37,920
Audit related fees	26,900	22,000
Tax fees	11,825	16,450
All other fees	17,000	26,200
	<u>\$ 97,124</u>	<u>\$ 102,570</u>

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

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

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

- "All other fees" for 2017 related to three year SEC review. All other fees for 2016 related to the review of registration statements on Form S-1.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

Based solely on a review of copies of reports furnished to us, as of September 30, 2017 our executive officers, directors and 10% holders complied with all filing requirements.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) FINANCIAL STATEMENTS:

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Title of Document</u>	<u>Page</u>
Report of SD Mayer and Associates, LLP.	F-1
Consolidated Balance Sheets as of September 30, 2017 and 2016	F-2
Consolidated Statements of Operations for the years ended September 30, 2017 and 2016	F-3
Consolidated Statements of Changes in Stockholders' (Deficit) for the years ended September 30, 2017 and 2016	F-4
Consolidated Statements of Cash Flows for the years ended September 30, 2016 and 2015	F-5
Notes to the Financial Statements	F-6

(b) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restatement of the Articles of Incorporation dated September 13, 2013 (incorporated by reference to the Company's Current Report on Form 8-K/A2, filed September 17, 2013)
3.2	Amended and Restated Bylaws (incorporated by reference to the Company's Form 8-K, filed August 17, 2012)
3.3	Certificate of Amendment to the Restatement of the Articles of Incorporation dated June 11, 2015 (incorporated by reference to the Company's Current Report on Form 8-K, filed June 17, 2015)
3.4	Amended and Restated Certificate of Designations, Preferences and Rights of the Company's Series A Convertible Preferred Stock dated July 21, 2015 (incorporated by reference to the Company's Current Report on Form 8-K, filed July 29, 2015)
3.5	Correction to Amended and Restated Certificate of Designations, Preferences and Rights of its Series A Convertible Preferred Stock dated March 8, 2016 (incorporated by reference to the Company's Current Report on Form 8-K, filed March 15, 2016)
3.6	Amendment 2 of Series A Preferred Stock Terms dated February 19, 2016 (incorporated by reference to the Company's Current Report on Form 8-K, filed March 15, 2016)
3.7	Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock (incorporated by reference to the Company's Current Report on Form 8-K, filed August 11, 2016)
3.8	Form of Series C Convertible Preferred Stock 2016 (incorporated by reference to the Company's Registration Statement on Form S-1, filed September 1, 2016)
3.9	Certificate of Correction and Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock (incorporated by reference to the Company's Amended Current Report on Form 8-K/A, filed January 9, 2017)
3.10	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)
3.11	Amended and Restated 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 May 5, 2017)

- 4.1 [2011 Stock Incentive Plan \(incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A, filed January 11, 2013\)](#)
- 10.1 [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 \(incorporated by reference to the Company's Current Report on Form 8-K, filed on November 18, 2016\)](#)
- 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 9 to Demand Promissory Note dated January 9, 2017 by and between Visualant, Incorporated and J3E2A2Z LP \(incorporated by reference to the Company's Current Report on Form 8-K, filed January 9, 2017\)](#)
- 10.14 [Amendment 10 to Demand Promissory Note dated January 9, 2017 by and between Visualant, Incorporated and J3E2A2Z LP \(incorporated by reference to the Company's Current Report on Form 8-K, filed January 9, 2017\)](#)
- 10.16 [Amendment 11 to Demand Promissory Note dated January 9, 2017 by and between Visualant, Incorporated and J3E2A2Z LP \(incorporated by reference to the Company's Current Report on Form 8-K, filed January 9, 2017\)](#)
- 10.17 [Amendment to Public Relations Agreement dated October 18, 2016 by and between Visualant, Incorporated and Financial Genetics LLC. \(incorporated by reference to the Company's Form 10-Q, filed on February 21, 2017\)](#)
- 10.18 [Services Agreement dated September 15, 2016 by and between Visualant, Incorporated and Redwood Investment Group LLC. \(incorporated by reference to the Company's Form 10-Q, filed on February 21, 2017\)](#)
- 10.19 [Form of Preferred Stock and Warrant Purchase Agreement by and between Visualant, Incorporated and Clayton A. Struve \(incorporated by reference to the Company's Current Report on Form 8-K, filed May 5, 2017\)](#)

- [10.20](#) [Form of Amended and Restated Registration Rights Agreement, by and between Visualant, Incorporated and Clayton A. Struve \(incorporated by reference to the Company's Current Report on Form 8-K, filed May 5, 2017\)](#)
- [10.21](#) [Form of Series F Warrant to Purchase Common Stock by and between Visualant, Incorporated and Clayton A. Struve \(incorporated by reference to the Company's Current Report on Form 8-K, filed May 5, 2017\)](#)
- [10.22](#) [Fourth Modification of Loan and Security Agreement dated June 6, 2017 by and between TransTech Systems, Inc. and CapitalSource Business Finance Group. Filed herewith.](#)
- [10.23](#) [Consulting Relationship Letter dated July 6, 2017 by and between Visualant, Incorporated and Phil Bosua. Filed herewith.](#)
- [10.24](#) [Amendment 10 to Demand Promissory Note dated July 14, 2017 by and between Visualant, Incorporated and J3E2A2Z LP. \(incorporated by reference to the Company's Current Report on Form 8-K, filed July 18, 2017\)](#)
- [10.25](#) [Amendment 11 to Demand Promissory Note dated July 14, 2017 by and between Visualant, Incorporated and J3E2A2Z LP. \(incorporated by reference to the Company's Current Report on Form 8-K, filed July 18, 2017\)](#)
- [10.26](#) [Amendment 12 to Demand Promissory Note dated July 14, 2017 by and between Visualant, Incorporated and J3E2A2Z LP. \(incorporated by reference to the Company's Current Report on Form 8-K, filed July 18, 2017\)](#)
- [10.27](#) [Ronald P. Erickson Employment Agreement dated July 1, 2017. \(incorporated by reference to the Company's Current Report on Form 8-K, filed August 10, 2017\)](#)
- [10.28](#) [Securities Purchase Agreement dated August 14, 2017 by and between Visualant, Incorporated and accredited investor. \(incorporated by reference to the Company's Current Report on Form 8-K, filed August 18, 2017\)](#)
- [10.29](#) [Senior Secured Convertible Redeemable Debenture dated August 14, 2017 by and between Visualant, Incorporated and accredited investor. \(incorporated by reference to the Company's Current Report on Form 8-K, filed August 18, 2017\)](#)
- [10.30](#) [General Security Agreement dated August 14, 2017 by and between Visualant, Incorporated and accredited investor. \(incorporated by reference to the Company's Current Report on Form 8-K, filed August 18, 2017\)](#)
- [10.31](#) [Common Stock Purchase Warrant dated August 14, 2017 issued by Visualant, Incorporated to accredited investor. \(incorporated by reference to the Company's Current Report on Form 8-K, filed August 18, 2017\)](#)
- [10.32](#) [Subordination Agreement dated August 14, 2017 by and between an entity affiliated with Ronald P. Erickson and accredited investor. \(incorporated by reference to the Company's Current Report on Form 8-K, filed August 18, 2017\)](#)
- [10.33](#) [Office Lease dated December 13, 2016 by and between Visualant, Incorporated and Logan Building LLC. Filed herewith.](#)
- [21.1](#) [Subsidiaries. Filed herewith](#)
- [31.01](#) [Certification of Principal Executive Officer Pursuant to Rule 13a-14. Filed herewith](#)
- [31.02](#) [Certification of Principal Financial Officer Pursuant to Rule 13a-14. Filed herewith](#)
- [32.01](#) [CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act. Filed herewith](#)
- [32.02](#) [CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act. Filed herewith](#)

101.INS* XBRL Instance Document
101.SCH* XBRL Taxonomy Extension Schema Document
101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB* XBRL Taxonomy Extension Labels Linkbase Document
101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

*Filed Herewith. Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Visualant, Incorporated:

We have audited the accompanying consolidated balance sheets of Visualant, Incorporated (the "Company") as of September 30, 2017 and 2016 and the related consolidated statements of operations, stockholders' (deficit), and cash flows for the years ended September 30, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Visualant, Incorporated as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years ended September 30, 2017 and 2016 in conformity with generally accepted accounting principles in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has sustained a net loss from operations and has an accumulated deficit since inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SD Mayer and Associates, LLP

/s/ SD Mayer and Associates, LLP

December 29, 2017
Seattle, Washington

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2017	September 30, 2016 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 103,181	\$ 188,309
Accounts receivable, net of allowance of \$60,000 and \$55,000, respectively	693,320	808,955
Prepaid expenses	27,687	20,483
Inventories, net	225,909	295,218
Total current assets	1,050,097	1,312,965
EQUIPMENT, NET	133,204	285,415
OTHER ASSETS		
Intangible assets, net	-	43,750
Goodwill	-	983,645
Other assets	5,070	5,070
TOTAL ASSETS	\$ 1,188,371	\$ 2,630,845
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 2,156,646	\$ 1,984,326
Accounts payable - related parties	2,905	41,365
Accrued expenses	24,000	80,481
Accrued expenses - related parties	1,166,049	1,109,046
Deferred revenue	63,902	-
Derivative liability	-	145,282
Convertible notes payable	570,000	909,500
Notes payable - current portion of long term debt	1,165,660	1,170,339
Total current liabilities	5,149,162	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 9/30/2017 and 9/30/2016, respectively	-	-
Series A Convertible Preferred stock - \$0.001 par value, 23,334 shares authorized, 23,334 issued and outstanding at 9/30/2017 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 9/30/2017 and 9/30/2016, respectively	1,790	1,790
Series D Convertible Preferred stock - \$0.001 par value, 3,906,250 shares authorized, 1,016,014 and 0 shares issued and outstanding at 9/30/2017 and 9/30/2016, respectively	1,015	-
Common stock - \$0.001 par value, 100,000,000 shares authorized, 4,655,486 and 2,356,152 shares issued and outstanding at 9/30/2017 and 9/30/2016, respectively	4,655	2,356
Additional paid in capital	27,565,453	24,259,702
Accumulated deficit	(31,533,727)	(27,073,365)
Total stockholders' deficit	(3,960,791)	(2,809,494)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 1,188,371	\$ 2,630,845

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended,	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>
REVENUE	\$ 4,874,359	\$ 6,023,600
COST OF SALES	<u>3,966,607</u>	<u>5,035,699</u>
GROSS PROFIT	907,752	987,901
RESEARCH AND DEVELOPMENT EXPENSES	79,405	325,803
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,088,178	3,355,263
IMPAIRMENT OF GOODWILL	<u>983,645</u>	<u>-</u>
OPERATING LOSS	<u>(3,243,476)</u>	<u>(2,693,165)</u>
OTHER INCOME (EXPENSE):		
Interest expense	(376,974)	(323,928)
Other expense	(62,954)	(11,228)
(Loss) gain on change - derivative liability	(217,828)	2,559,558
(Loss) on conversion of debt	-	(1,277,732)
Total other (expense) income	<u>(657,756)</u>	<u>946,670</u>
(LOSS) BEFORE INCOME TAXES	(3,901,232)	(1,746,495)
Income taxes - current provision	<u>-</u>	<u>-</u>
NET (LOSS)	<u>\$ (3,901,232)</u>	<u>\$ (1,746,495)</u>
Basic and diluted loss per common share attributable to Visualant,		
Inc. and subsidiaries common shareholders-		
Basic and diluted loss per share	<u>\$ (1.01)</u>	<u>\$ (1.22)</u>
Weighted average shares of common stock outstanding- basic and diluted	3,844,840	1,428,763

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

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

	Series A Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Series C Convertible Preferred Stock		Series D Convertible Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Amount	Amount			
Balance as of September 30, 2015	11,667	\$ 12	-	\$ -	-	\$ -	-	\$ -	\$ 1,155,992	\$ 1,156	\$ 8,786,694	\$ 24,166,156	\$ 5,378,294
Stock compensation expense - employee options	-	-	-	-	-	-	-	-	-	-	46,398	-	46,398
Issuance of common stock for services	-	-	-	-	-	-	-	-	63,979	63	273,948	-	274,011
Issuance of warrant for services	-	-	-	-	-	-	-	-	-	-	120,751	-	120,751
Issuance of common stock for warrant exercise	-	-	-	-	-	-	-	-	207,666	207	518,955	-	519,162
Issuance of common stock	-	-	-	-	-	-	-	-	850,850	852	1,245,626	-	1,246,478
Issuance of convertible notes payable	-	-	-	-	-	-	-	-	-	-	120,501	-	120,501
Issuance of Series A Convertible Preferred Stock	11,667	11	-	-	-	-	-	-	-	-	(11)	-	-
Issuance of Series B Redeemable Convertible Preferred Stock	-	-	51	5	-	-	-	-	-	-	504,995	-	505,000
Cancellation of Series B Redeemable Convertible Preferred Stock	-	-	(51)	(5)	-	-	-	-	-	-	-	-	(5)
Issuance of Series C Convertible Preferred Stock	-	-	-	-	1,785,715	1,790	-	-	-	-	1,248,214	-	1,250,004
Beneficial conversion feature of Preferred Stock/dividend	-	-	-	-	-	-	-	-	-	-	1,160,714	(1,160,714)	-
Issuance of common stock for conversion of liabilities	-	-	-	-	-	-	-	-	77,665	78	232,917	-	232,995
Net loss	-	-	-	-	-	-	-	-	-	-	-	(1,746,495)	(1,746,495)
Balance as of September 30, 2016	23,334	23	-	-	1,785,715	1,790	-	-	2,356,152	2,356	24,259,702	(27,073,365)	(2,809,494)
Stock compensation expense - employee options	-	-	-	-	-	-	-	-	-	-	37,848	-	37,848
Issuance of common stock for services	-	-	-	-	-	-	-	-	1,354,386	1,353	545,103	-	546,456
Issuance of Series D Convertible Preferred Stock	-	-	-	-	-	-	1,016,004	1,015	-	-	998,132	-	999,147

Beneficial conversion feature of Preferred Stock/dividend	-	-	-	-	-	-	-	-	-	-	-	559,130	(559,130)	-
Issuance of common stock for conversion of liabilities	-	-	-	-	-	-	-	-	944,948	946	755,014	-	-	755,960
Write-off of derivative liability to additional paid in capital	-	-	-	-	-	-	-	-	-	-	-	410,524	-	410,524
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	(3,901,232)	(3,901,232)
Balance as of September 30, 2017	<u>23,334</u>	<u>\$ 23</u>	<u>-</u>	<u>\$ -</u>	<u>1,785,715</u>	<u>\$ 1,790</u>	<u>1,016,004</u>	<u>\$ 1,015</u>	<u>\$4,655,486</u>	<u>\$ 4,655</u>	<u>\$7,565,453</u>	<u>\$31,533,727</u>	<u>\$3,960,791</u>	

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended,	
	September 30, 2017	September 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,901,232)	\$ (1,746,495)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	81,283	178,762
Issuance of capital stock for services and expenses	547,838	394,825
Conversion of interest	68,043	-
Loss on conversion of preferred stock	-	675,695
Stock based compensation	37,848	46,398
Loss on termination of stock purchase agreement	-	505,000
Non cash loss on debt settlement	-	97,037
Loss on sale of assets	113,244	34,027
Loss on change - derivative liability	(145,282)	(2,559,558)
Reclassification of derivative liability	410,324	-
Amortization of debt discount	158,941	299,412
Bad debt expense	136,217	-
Provision on loss on accounts receivable	5,000	-
Impairment of goodwill	983,645	-
Changes in operating assets and liabilities:		
Accounts receivable	(20,582)	(189,106)
Prepaid expenses	(7,204)	7,291
Inventory	69,309	(77,394)
Accounts payable - trade and accrued expenses	134,382	(406,394)
Deferred revenue	63,902	(5,833)
NET CASH (USED IN) OPERATING ACTIVITIES	(1,264,324)	(2,746,333)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in BioMedx, Inc., net	(260,000)	-
Repayment from investment in BioMedx, Inc., net	290,000	-
Capital expenditures	2,441	(23,437)
Proceeds from sale of equipment	1,434	6,585
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:	33,875	(16,852)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	30,321	5,647
Proceeds from sale of common and preferred stock, net	-	2,255,004
Proceeds from warrant exercises	-	519,162
Proceeds from convertible notes payable	690,000	1,174,500
Loss on termination of stock purchase agreement	-	(505,000)
Proceeds from issuance of common/preferred stock, net of costs	550,000	-
Repayment of convertible notes	(125,000)	(580,085)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,145,321	2,869,228
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(85,128)	106,043
CASH AND CASH EQUIVALENTS, beginning of period	188,309	82,266
CASH AND CASH EQUIVALENTS, end of period	\$ 103,181	\$ 188,309
Supplemental disclosures of cash flow information:		
Interest paid	\$ 47,789	\$ 50,327
Taxes paid	\$ -	\$ -
Non-cash investing and financing activities:		
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.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$3,901,232 and \$1,746,495 for the years ended September 30, 2017 and 2016, respectively. Net cash used in operating activities was \$(1,264,324) and \$(2,746,333) for the years ended September 30, 2017 and 2016, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of September 30, 2017, the Company's accumulated deficit was \$31,533,727. 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, 2017 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 January 31, 2018. 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.

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, Allied Inventors.

3. SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

Basis of Presentation – The accompanying unaudited consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these unaudited condensed consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries, TransTech Systems, Inc. Inter-Company items and transactions have been eliminated in consolidation.

Cash and Cash Equivalents – The Company classifies highly liquid temporary investments with an original maturity of three months or less when purchased as cash equivalents. The Company maintains cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit.

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

Inventories – Inventories consist primarily of printers and consumable supplies, including ribbons and cards, badge accessories, capture devices, and access control components held for resale and are stated at the lower of cost or market on the first-in, first-out (“FIFO”) method. Inventories are considered available for resale when drop shipped and invoiced directly to a customer from a vendor, or when physically received by TransTech at a warehouse location. The Company records a provision for excess and obsolete inventory whenever an impairment has been identified. There is a \$35,000 and \$25,000 reserve for impaired inventory as of and September 30, 2017 and 2016, respectively.

Equipment – Equipment consists of machinery, leasehold improvements, furniture and fixtures and software, which are stated at cost less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives or lease period of the relevant asset, generally 2-10 years, except for leasehold improvements which are depreciated over 2-3 years.

Goodwill – Goodwill is the excess of cost of an acquired entity over the fair value of amounts assigned to assets acquired and liabilities assumed in a business combination. With the adoption of ASC 350, goodwill is not amortized, rather it is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but are combined when reporting units within the same segment have similar economic characteristics. Under the criteria set forth by ASC 350, the Company has one reporting unit based on the current structure. An impairment loss generally would be recognized when the carrying amount of the reporting unit’s net assets exceeds the estimated fair value of the reporting unit. The Company determined that its goodwill related to the 2010 acquisition of TransTech Systems was impaired and recorded an impairment of \$983,645 as selling, general and administrative expenses during the year ended September 30, 2017.

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

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

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

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

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The recorded value of other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, and accounts payable and accrued expenses approximate the fair value of the respective assets and liabilities as of September 30, 2017 and 2016 based upon the short-term nature of the assets and liabilities.

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

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

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

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

Net Loss per Share – Under the provisions of ASC 260, “Earnings Per Share,” basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive. As of September 30, 2017, there were options outstanding for the purchase of 15,404 common shares, warrants for the purchase of 6,900,356 common shares, 2,825,053 shares of the Company’s common stock issuable upon the conversion of Series A, Series C and Series D Convertible Preferred Stock and up to 332,940 shares of the Company’s common stock issuable upon the exercise of placement agent warrants. In addition, the Company has an unknown number of shares are issuable upon conversion of convertible debentures of \$570,000. All of which could potentially dilute future earnings per share.

As of September 30, 2016, there were options outstanding for the purchase of 50,908 common shares, warrants for the purchase of 3,182,732 common shares, 1,809,048 shares of our common stock issuable upon the conversion of Series A and Series C Convertible Preferred Stock, up to 270,439 shares of our common stock issuable upon the exercise of placement agent warrants and an unknown number of shares related to the conversion of \$885,000 in convertible promissory notes.

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

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

Impact of Recently Issued Accounting Standards on Future Filings

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Subsequent to the issuance of ASU No. 2014-09, the FASB issued additional ASUs related to this revenue guidance. In March 2016, the FASB issued ASU No. 2016-08, “Principal versus Agent Considerations,” which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, “Identifying Performance Obligations and Licensing,” which clarifies the implementation guidance on identifying performance obligations and licenses in customer contracts. In May 2016, the FASB issued ASU No. 2016-12, “Narrow-Scope Improvements and Practical Expedients,” which addresses completed contracts and contract modifications at transition, noncash consideration, the presentation of sales taxes and other taxes collected from customers, and assessment of collectability when determining whether a transaction represents a valid contract. In December 2016, the FASB issued ASU No. 2016-20, “Technical Corrections and Improvements to Topic 606,” which includes thirteen technical corrections or improvements that affect only narrow aspects of the guidance in ASU No. 2014-09. ASU No. 2014-09 and all of the related ASUs have the same effective date. On July 9, 2015, the FASB deferred the effective date of ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of the original effective date, which is annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. The new standard is to be applied retrospectively and permits the use of either the retrospective or cumulative effect transition method. The adoption of this update is not expected to have a material impact on Visualant’s consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The amendment is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those annual periods. The adoption of this update is not expected to have a material impact on Visualant's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. In general, a right-of-use asset and lease obligation will be recorded for leases exceeding a twelve-month term whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption must be calculated using the applicable incremental borrowing rate at the date of adoption. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, and requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. Visualant is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "Simplifying the Transition to the Equity Method of Accounting," which eliminates the requirement that when an investment subsequently qualifies for use of the equity method as a result of an increase in level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. This ASU requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. In addition, the ASU requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. The adoption of this update is not expected to have a material impact on Visualant's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This ASU is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of this update did not have a material impact on Visualant's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The adoption of this update is not expected to have a material impact on Visualant's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which provides guidance on recognition of current income tax consequences for intra-entity asset transfers (other than inventory) at the time of transfer. This represents a change from current GAAP, where the consolidated tax consequences of intra-entity asset transfers are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption at the beginning of an annual period is permitted. The adoption of this update is not expected to have a material impact on Visualant's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, "Interests Held through Related Parties That Are under Common Control," which modifies existing guidance with respect to how a decision maker that holds an indirect interest in a VIE through a common control party determines whether it is the primary beneficiary of the VIE as part of the analysis of whether the VIE would need to be consolidated. Under this ASU, a decision maker would need to consider only its proportionate indirect interest in the VIE held through a common control party. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of this update did not have a material impact on Visualant's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows - Restricted Cash," which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Thus, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and the end-of-period total amounts set forth on the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The amendments should be applied using a retrospective transition method to each period presented. The adoption of this update will impact the presentation of the cash flow statements if Visualant has restricted cash at the time of adoption.

In February 2017, the FASB issued ASU No. 2017-05, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," which clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets. ASU No. 2017-05 is effective at the same time as the revenue standard in ASU No. 2014-09, "Revenue from Contracts with Customers" goes into effect, which is annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The adoption of the update is not expected to have an impact on Visualant's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation - Scope of Modification Accounting," which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The adoption of this update is not expected to have a material impact on Visualant's consolidated financial statements.

Recently Adopted Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires an entity to evaluate at each reporting period whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year from the date the financial statements are issued and to provide related footnote disclosures in certain circumstances. The Company adopted the provisions of this ASU for the annual reporting period ended September 30, 2017. The adoption of this update did not have a material impact on Visualant's consolidated financial statements. Visualant has included a going concern footnote disclosure.

In January 2015, the FASB issued ASU No. 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items," which eliminates the concept of an extraordinary item from GAAP. As a result, an entity will no longer be required to separately classify, present and disclose extraordinary events and transactions. The Company adopted the provisions of this ASU effective October 1, 2016. The adoption of this update did not have a material impact on Visualant's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis," which simplifies the current consolidation guidance and will require companies to reevaluate limited partnerships and similar entities for consolidation. The Company adopted the provisions of this ASU effective October 1, 2016. The adoption of this update had no material impact on Visualant's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This amendment was issued to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The Company adopted the provisions of this ASU effective October 1, 2016. The adoption of this update did not have a material impact on Visualant's consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." This ASU eliminates the requirement to account for business combination measurement period adjustments retrospectively. Measurement period adjustments will now be recognized prospectively in the reporting period in which the adjustment amount is determined. The nature and amount of any measurement period adjustments recognized during the reporting period must be disclosed, including the value of the adjustment to each current period income statement line item relating to the income effects that would have been recognized in previous periods if the adjustment to provisional amounts were recognized as of the acquisition date. The Company adopted the provisions of this ASU effective October 1, 2016. The adoption of this update had no impact on Visualant's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business," which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in ASU No. 2017-01 provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If, however, the screen is not met, then the amendments in this ASU (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. Finally, the amendments in this ASU narrow the definition of the term "output" so that it is consistent with the manner in which outputs are described in Topic 606. The adoption of this update is expected to have no material impact on Visualant's consolidated financial statements.

In July 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company early adopted ASU 2017-11 and has reclassified its financial instrument with down round features to equity in the amount of \$410,524.

4. ACCOUNTS RECEIVABLE/CUSTOMER CONCENTRATION

Accounts receivable were \$693,320 and \$808,955, net of allowance, as of September 30, 2017 and 2016, respectively. The Company had one customer (14.1%) in excess of 10% of the Company’s consolidated revenues for the year ended September 30, 2017. The Company had one customer (48.3%) with accounts receivable in excess of 10% as of September 30, 2017. The Company has a total allowance for bad debt in the amount of \$60,000 as of September 30, 2017.

5. INVENTORIES

Inventories were \$225,909 and \$295,218 as of September 30, 2017 and 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 was a \$35,000 and \$25,000 reserve for impaired inventory as of September 30, 2017 and 2016, respectively.

6. NOTES RECEIVABLE FROM BIOMEDX, INC

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 matured one year from issuance and bears interest at 5%. The principal and interest was convertible into BioMedx common stock at the option of the Company. The Company received 150,000 shares of BioMedx common stock as partial consideration for purchasing the Note. In addition, if BioMedx does not repay the Promissory Note, the Company would have the right to convert the Promissory Note into 51% of the ownership of BioMedx.

In addition, the Company and BioMedx 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 uncertainty involved with a start-up company, The Company’s management determined that the value of the Promissory Note and BioMedx common stock was zero at December 31, 2016 and recorded an impairment reserve for the full value as of December 31, 2016. 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 three months ended March 31, 2017. In addition, the Company has not valued the 150,000 shares of BioMedx common stock.

7. FIXED ASSETS

Fixed assets, net of accumulated depreciation, was \$133,204 and \$285,415 as of September 30, 2017 and 2016, respectively. Accumulated depreciation was \$662,855 and \$796,481 as of September 30, 2017 and 2016, respectively. Total depreciation expense, was \$38,031 and \$64,512 for the years ended September 30, 2016 and 2015, respectively. The Company record a loss on sale of assets of \$113,044 during the year ended September 30, 2017. All equipment is used for selling, general and administrative purposes and accordingly all depreciation is classified in selling, general and administrative expenses.

Property and equipment as of September 30, 2017 was comprised of the following:

	Estimated Useful Lives	September 30, 2017		Total
		Purchased	Capital Leases	
Machinery and equipment	2-10 years	\$ 251,699	\$ 57,181	\$ 308,880
Leasehold improvements	2-3 years	276,112	-	276,112
Furniture and fixtures	2-3 years	73,977	101,260	175,237
Software and websites	3- 7 years	35,830	-	35,830
Less: accumulated depreciation		(504,414)	(158,441)	(662,855)
		<u>\$ 133,204</u>	<u>\$ -</u>	<u>\$ 133,204</u>

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 year ended September 30, 2017.

9. ACCOUNTS PAYABLE

Accounts payable were \$2,154,646 and \$1,984,326 as of September 30, 2017 and 2016, respectively. Such liabilities consisted of amounts due to vendors for inventory purchases and technology development, external audit, legal and other expenses incurred by the Company. The Company had two vendors (10.5% and 10.4%) with accounts payable in excess of 10% of its accounts payable as of September 30, 2017. The Company does expect to have vendors with accounts payable balances of 10% of total accounts payable in the foreseeable future.

10. 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.

There was no derivative liability as of September 30, 2017. For the year ended September 30, 2017, the Company recorded non-cash loss of \$217,828 related to the "change in fair value of derivative" expense related to its derivative instruments. The Company early adopted ASU 2017-11 and has reclassified its financial instrument with down round features to equity in the amount of \$410,524.

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

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

For the year ended September 30, 2016, the Company recorded non-cash income of \$1,324,384 related to the "change in fair value of derivative" expense related to its 6%, 7% and 18% convertible notes.

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.

As of June 30, 2017, the Company had outstanding 524,559 warrants to purchase shares of common stock in connection with our June 2013 private placement that the Company determined had an embedded derivative liability due to the "reset" clause associated with the note's conversion price. The Company valued the derivative liability of these notes at \$22,556 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 113.0%; (iii) risk free rate of .007%, (iv) stock price of \$0.25, (v) per share conversion price of \$0.70, and (vi) expected term of 1.0 year. During the nine months June 30, 2017, the Company recognized \$88,624 of income resulting from the decrease in the fair value of the warrant liability as of June 30, 2017.

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

The Company issued a warrant to purchase 97,169 shares of common stock in connection with the November 2013 Allied Inventors 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 Allied Inventors warrant. During the year ended September 30, 2015, the Company recognized \$14,574 of other income related to the Allied Inventors warrant. During the year ended September 30, 2016, the Company recognized \$286,260 of other income from the decrease in the fair value of the warrant liability at September 30, 2016.

As of June 30, 2017, the Company had outstanding 97,169 warrants to purchase shares of common stock in connection with the November 2013 Allied Inventors Services and License Agreement that the Company determined had an embedded derivative liability due to the "reset" clause associated with the note's conversion price. The Company valued the derivative liability of these notes at \$4,178 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 113.0%; (iii) risk free rate of .007%, (iv) stock price of \$0.25, (v) per share conversion price of \$0.70, and (vi) expected term of 1.0 year. During the nine months June 30, 2017, the Company recognized \$15,644 of income resulting from the decrease in the fair value of the warrant liability as of June 30, 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 decrease in the fair value of the warrant liability at September 30, 2016.

As of June 30, 2017, the Company had outstanding 11,667 shares of Series A Convertible Preferred Stock with attached warrants that the Company determined had an embedded derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$3,010 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%;(ii) expected volatility of 113.0%; (iii) risk free rate of .007%, (iv) stock price of \$0.25, (v) per share conversion price of \$0.70, and (vi) expected term of 1.0 year. During the nine months June 30, 2017, the Company recognized \$11,270 of income resulting from the increase in the fair value of the warrant liability as of June 30, 2017.

Derivative Instrument – Series C Convertible Preferred Stock

The Company issued 1,785,715 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.

As of June 30, 2017, the Company had outstanding 1,785,715 shares of Series C Convertible Preferred Stock with attached warrants that the Company determined had an embedded derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$266,071 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 113.0%; (iii) risk free rate of .007%, (iv) stock price of \$0.25, (v) per share conversion price of \$0.70, and (vi) expected term of 4.0 years. During the nine months June 30, 2017, the Company recognized \$266,071 of other expense resulting from the modification of the warrant, net of the decrease in the fair value of the warrant liability as of June 30, 2017.

Derivative Instrument – Placement Agent Warrants

During the nine months ended June 30, 2017, the Company revised five year placement agent warrants to purchase 312,500 shares of common stock. In February 2017, the Company reduced the price from \$1.00 to \$0.70 per share and the exercise price is now subject to adjustment.

As of June 30, 2017, the Company had placement agent warrants to purchase 312,500 shares of common stock that the Company determined had an embedded derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$13,438 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 113.0%; (iii) risk free rate of .007%, (iv) stock price of \$0.25, (v) per share conversion price of \$0.70, and (vi) expected term of 1.0 year. During the nine months June 30, 2017, the Company recognized \$13,428 of other expense resulting from the modification of the warrant, net of the decrease in the fair value of the warrant liability as of June 30, 2017.

Derivative Instrument – Series D Convertible Preferred Stock

The Company issued 1,016,014 shares of Series C Convertible Preferred Stock with attached warrants during the nine months ended June 30, 2017. In February 2017, the Company modified the term of the warrants to provide a down round provision.

As of June 30, 2017, the Company had outstanding 1,016,014 shares of Series D Convertible Preferred Stock with attached warrants that the Company determined had an embedded derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$101,271 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 113.0%; (iii) risk free rate of .007%, (iv) stock price of \$0.25, (v) per share conversion price of \$0.70, and (vi) expected term of 4.35 years. During the nine months June 30, 2017, the Company recognized \$101,171 of other expense resulting from the modification of the warrant, net of the decrease in the fair value of the warrant liability as of June 30, 2017.

11. CONVERTIBLE NOTES PAYABLE

Convertible notes payable as of September 30, 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 year ended September 30, 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 \$210,000 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 year ended September 30, 2017, the Company recorded interest of \$ 21,000 related to the convertible note.

This note was extended in the Securities Purchase Agreement, General Security Agreement and Subordination Agreement dated August 14, 2017 with a maturity date of August 13, 2018.

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.

On August 14, 2017, the Company issued a senior convertible exchangeable debenture with a principal amount of \$360,000 and a common stock purchase warrant to purchase 1,440,000 shares of common stock in a private placement to Clayton Struve for gross proceeds of \$300,000 pursuant to a Securities Purchase Agreement dated August 14, 2017. The debenture accrues interest at 20% per annum and matures August 13, 2018. The convertible debenture contains a beneficial conversion valued at \$110,629. The warrants were valued at \$111,429. Because the note is immediately convertible, the warrants and beneficial conversion were expensed as interest.

On the same date, the Company entered into a General Security Agreement with the investor, pursuant to which the Company has agreed to grant a security interest to the investor in substantially all the Company's assets, effective upon the filing of a UCC-3 termination statement to terminate the security interest held by Capital Source Business Finance Group in the assets of the Company. In addition, an entity affiliated with Ronald P. Erickson, the Company's Chief Executive Officer, entered into a Subordination Agreement with the investor pursuant to which all debt owed by the Company to such entity is subordinated to amounts owed by the Company to the investor under the Debenture (including amounts that become owing under any Debentures issued to the investor in the future).

The initial conversion price of the Debenture is \$0.25 per share, subject to certain adjustments. The initial exercise price of the Warrant is \$0.25 per share, also subject to certain adjustments.

As part of the Purchase Agreement, the Company granted the investor "piggyback" registration rights to register the shares of common stock issuable upon the conversion of the Debenture and the exercise of the Warrant with the Securities and Exchange Commission for resale or other disposition.

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

In connection with the private placement, the placement agent for the Debenture and the Warrant received a cash fee of \$30,000 and the Company expects to issue warrants to purchase shares of the Company's common stock to the placement agent based on 10% of proceeds.

Under the terms of the Purchase Agreement, the investor may purchase up to an aggregate of \$1,000,000 principal amount of Debentures (before a 20% original issue discount) (and Warrants to purchase up to an aggregate of 250,000 shares of common stock). These securities are being offered on a "best efforts" basis by the placement agent.

During the year ended September 30, 2017 and 2016, \$156,941 and \$299,412, respectively, has been recorded as interest expense related to debt discounts, beneficial conversions and warrants associated with Convertible Promissory Notes.

12. NOTES PAYABLE, CAPITALIZED LEASES AND LONG-TERM DEBT

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

	September 30, 2017	September 30, 2016
Capital Source Business Finance Group	\$ 365,725	\$ 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	1,165,660	1,170,339
Less current portion of long term debt	(1,165,660)	(1,170,339)
Long term debt	<u>\$ -</u>	<u>\$ -</u>

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 June 6, 2017, TransTech entered into the Fourth Modification to the Loan and Security Agreement. This secured credit facility was renewed until June 12, 2018 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 \$500,000. 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 \$365,725 (\$16,000 available) as of September 30, 2017 must be repaid by the time the secured credit facility expires on June 12, 2018, or the Company renews by automatic extension for the next successive one year term.

Note Payable to Umpqua Bank

The Company has a \$199,935 Business Loan Agreement with Umpqua Bank. On December 19, 2017, the Umpqua Loan maturity was extended to March 31, 2018 and provides for interest at 4.00% 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.

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 December 31, 2017. The notes payable also provide for a second lien on our assets if not repaid by December 31, 2017 or converted into convertible debentures or equity on terms acceptable to the Mr. Erickson. The Company recorded accrued interest of \$58,167 as of September 30, 2017.

Aggregate maturities totaling \$1,165,660 are all due within twelve months.

13. EQUITY

Authorized Capital Stock

The Company 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.

Voting Preferred Stock

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

Series A Preferred Stock

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

Under the Amended and Restated Certificate, the Company had 11,667 shares of Series A Preferred authorized, all of which are outstanding. Each holder of outstanding shares of Series A Preferred is entitled to the number of votes equal to the number of whole shares of common stock into which the shares of Series A Preferred held by such holder are then convertible as of the applicable record date. The Company cannot amend, alter or repeal any preferences, rights, or other terms of the Series A Preferred so as to adversely affect the Series A Preferred, without the written consent or affirmative vote of the holders of at least 66% of the then outstanding shares of Series A Preferred, voting as a separate voting group, given by written consent or by vote at a meeting called for such purpose for which notice shall have been duly given to the holders of the Series A Preferred.

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

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

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

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

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

On August 14, 2017, the price of the Series A Preferred Stock and Series C Warrants were adjusted to \$0.25 per share pursuant to the documents governing such instruments.

Series B Redeemable Convertible Preferred Stock

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

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

At closing, the Company sold 51 Series B Preferred Shares in exchange for payment to the Company of \$505,000 in cash and issued an additional 204 Series B Preferred Shares in exchange for delivery of a full recourse 1% Promissory Note ("Note") for \$1,995,000 and payment to the Company of \$5,000 in cash (paid). The Note is collateralized by the Series B Preferred Shares. Under the terms of the Note, the Company is to receive an additional \$500,000 for each \$5 million, or in certain cases a lower amount, in aggregate trading volume of the common stock, so long as it meets certain other requirements. Any remaining balance under the Note is payable at its maturity in seven years. Due to the uncertainty on the receipt of achieving future funding, the Company has not booked the full recourse 1% Promissory Note.

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

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

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

In the third quarter ended June 30, 2016, the investor converted 35 preferred shares into 74,064 shares of common stock valued at \$506,695. Prior to the closing of the First Amendment to the Stock Purchase Agreement the investor converted the remaining 16 preferred shares into 52,000 shares of common stock valued at \$169,000.

On August 5, 2016, the Company closed the First Amendment to Stock Purchase Agreement with the institutional investor. As a result of this amendment agreement the Company paid the sum of \$505,000 to the institutional investor and cancelled the remaining 204 shares of Series B Preferred Stock that had not been purchased, and the parties terminated the relationship and all aspects of the Stock Purchase Agreement described above in its entirety. We recorded an expense of \$674,000 related to this Amendment Agreement during the three months ended September 30, 2016, which includes the conversion of the remaining 16 shares.

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

Series C and D Preferred Stock and Warrants

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

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

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

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

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

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.

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.

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

The 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.

Because the Company’s preferred stock is perpetual, with no stated maturity date, and the conversions may occur any time from inception, the dividend is recognized immediately when a beneficial conversion exists at issuance. During the year ending September 30, 2017, the Company recognized preferred stock dividends of \$234,443 million on Series D preferred stock related to the beneficial conversion feature arising from a common stock effective conversion rate of \$0.34 and \$0.37 versus the original market price of \$1.14 and \$1.06 per common share, respectively.

On May 1, 2017, 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.

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 \$0.48 per share, and concluded that the conversion feature did not have an intrinsic value. As such, the Company concluded that the Series D Preferred Stock did not contain a beneficial conversion feature and an accounting entry and additional financial statement disclosure was not required.

Common Stock

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

The following equity issuances occurred during the year ended September 30, 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 359,386 shares of our common stock during the year ended September 30, 2017. The Company expensed \$271,309 during the year ended September 30, 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 year ended September 30, 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 common stock. 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.

On the year ended September 30, 2017, the Company issued 795,000 shares of restricted common stock to two Names Executive Officers employees, two directors and six employees and consultants and for services during 2015-2017. The shares were issued in accordance with the 2011 Stock Incentive Plan and were valued at \$0.17 per share, the market price of our common stock. The Company expensed \$135,150 during the year ended September 30, 2017.

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

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

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

On October 6, 2015, the Company entered into a Consulting Agreement with Joshua Conroy for business development services. Under the Agreement, Mr. Conroy was issued 1,711 shares of our common stock. The Company expensed \$11,977 during the year ended September 30, 2016.

The Company entered into Convertible Promissory Notes totaling \$710,000 with accredited investors during September 2015 to February 2016 to fund short-term working capital. The Notes accrue interest at a rate of 8% per annum and become due September 2016 to February 2017 and are convertible into common stock as part of our next financing. The investors received \$710,000 in warrants that are exercisable into common stock at the price equal to the price of the common stock sold in our next public financing.

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

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

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

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

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

Warrants to Purchase Common Stock

The following warrants were issued during the year ended September 30, 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 common stock. 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. The warrant was valued at \$189,938.

On December 19, 2016, the Company issued 187,500 shares of Series D Convertible Preferred Stock and a warrant to purchase 187,500 shares of common stock in a private placement to an accredited investor for gross proceeds of \$150,000 pursuant to a Series D Preferred Stock and Warrant Purchase Agreement dated December 14, 2016. The warrant was valued at \$131,250.

On February 24, 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 warrant was valued at \$198,703.

During the year ended September 30, 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 \$218,751 as of June 30, 2017.

On May 1, 2017, the Company issued 357,143 shares of Series D Convertible Preferred Stock 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, 2017. The warrant was valued at \$5,357.

On August 14, 2017, the Company issued a common stock purchase warrant to purchase 1,440,000 shares of common stock in a private placement to Clayton Struve for gross proceeds of \$300,000 pursuant to a Securities Purchase Agreement dated August 14, 2017. The initial exercise price of the Warrant is \$0.25 per share, also subject to certain adjustments. The warrants were valued at \$111,429.

Warrants to acquire 7,668 shares of common stock at \$30.00 per share expired.

The conversion price of the Series A, C and D Shares and related warrants is currently \$0.250 per share, subject to certain adjustments.

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

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

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

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

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

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

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

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

The Company entered into Convertible Promissory Notes totaling \$710,000 with accredited investors during September 2015 to February 2016 to fund short-term working capital. The investors received \$710,000 in warrants that are exercisable into common stock at the price equal to the price of the common stock sold in our next public financing. The number of warrants convertible into shares of common stock is not known at this time as the number of shares is determined by the price of the next up-lift offering by an investment banker.

A summary of the warrants issued as of September 30, 2017 were as follows:

	September 30, 2017	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,453,171	\$ 0.840
Issued	3,454,853	0.399
Exercised	-	-
Forfeited	-	-
Expired	(7,668)	(30.000)
Outstanding at end of period	<u>6,900,356</u>	<u>\$ 0.428</u>
Exercisable at end of period	<u>6,900,356</u>	<u>\$ 0.428</u>

A summary of the status of the warrants outstanding as of September 30, 2017 is presented below:

September 30, 2017				
Number of Warrants	Weighted Average Remaining Life (In Years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
5,222,616	3.77	\$ 0.250	5,222,616	\$ 0.250
734,725	3.74	0.700	734,725	0.700
936,348	4.17	1.000	936,348	1.000
6,667	1.25	30.000	6,667	30.000
<u>6,900,356</u>	<u>3.72</u>	<u>\$ 0.428</u>	<u>6,900,356</u>	<u>\$ 0.428</u>

The significant weighted average assumptions relating to the valuation of the Company's warrants for the year ended September 30, 2017 were as follows:

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

At September 30, 2017, vested warrants totaling 6,900,356 shares had an aggregate intrinsic value of \$0.

14. 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 the following stock option transactions during the year ended December 31, 2017:

During the year ended September 30, 2017, employees forfeited stock option grants for 35,504 shares of common stock at \$19.51 per share.

The Company had the following stock option transactions during the year ended December 31, 2016:

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

There are currently 15,404 options to purchase common stock at an average exercise price of \$14.68 per share outstanding as of September 30, 2017 under the 2011 Stock Incentive Plan. The Company recorded \$37,848 and \$46,398 of compensation expense, net of related tax effects, relative to stock options for the year ended September 30, 2017 and 2016 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately (\$0.01) and (\$0.03) per share, respectively. As of September 30, 2017, there is approximately \$20,215 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 1.78 years.

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

	Weighted Average		
	Options	Exercise Price	\$
Outstanding as of September 30, 2015	57,407	18.425	1,057,725
Granted	-	-	-
Exercised	-	-	-
Forfeitures	(6,499)	(21,403)	(139,098)
Outstanding as of September 30, 2016	50,908	18.045	918,627
Granted	-	-	-
Exercised	-	-	-
Forfeitures	(35,504)	(19,507)	(692,568)
Outstanding as of September 30, 2017	15,404	\$ 14.675	\$ 226,059

The following table summarizes information about stock options outstanding and exercisable at September 30, 2017:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price Exercisable	Number Exercisable	Weighted Average Exercise Price Exercisable
13.500	3,334	2.75	\$ 13.500	3,334	\$ 13.50
15.000	12,238	1.52	15.000	7,570	15.00
	<u>15,572</u>	<u>1.78</u>	<u>\$ 14.679</u>	<u>10,904</u>	<u>\$ 14.54</u>

There is no aggregate intrinsic value of the exercisable options as of September 30, 2017.

15. OTHER SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

Related Party Transactions with Ronald P. Erickson

See Note 12 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. On December 19, 2017, the Umpqua Loan maturity was extended to March 31, 2018 and provides for interest at 4.00% 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.

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 December 31, 2017. The notes payable also provide for a second lien on our assets if not repaid by December 31, 2017 or converted into convertible debentures or equity on terms acceptable to the Mr. Erickson. The Company recorded accrued interest of \$58,167 as of September 30, 2017.

Other Amounts Due to Mr. Erickson

Mr. Erickson and/or entities with which he is affiliated also have advanced \$519,833 and have unreimbursed expenses and compensation of approximately \$450,679. The Company owes Mr. Erickson, or entities with which he is affiliated, \$1,570,511 as of September 30, 2017.

Issuance of Common Stock to Mr. Erickson

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

Entry into Employment Agreement with Ronald P. Erickson, Chief Executive Officer

On August 4, 2017, the Board of Directors approved an Employment Agreement with Ronald P. Erickson pursuant to which we engaged Mr. Erickson as the Company's Chief Executive Officer through June 30, 2018.

Stock Issuances to Named Executive Officers and Directors

On September 7, 2017, the Company issued 600,000 shares of restricted common stock to two Names Executive Officers employees and two directors for services during 2015-2017. The shares were issued in accordance with the 2011 Stock Incentive Plan and were valued at \$0.17 per share, the market price of our common stock. The Company expensed \$102,000 during the year ended September 30, 2017.

Stock Option Grant Cancellations

During the year ended September 30, 2017, two Names Executive Officers forfeited stock option grants for 35,366 shares of common stock at \$19.53 per share.

16. 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.

Entry into Employment Agreement with Ronald P. Erickson, Chief Executive Officer

On August 4, 2017, the Board of Directors approved an Employment Agreement with Ronald P. Erickson pursuant to which the Company engaged Mr. Erickson as the Company's Chief Executive Officer through June 30, 2018.

Mr. Erickson's annual compensation is \$180,000. Mr. Erickson is also entitled to receive an annual bonus and equity awards compensation as approved by the Board. The bonus should be paid no later than 30 days following earning of the bonus.

Mr. Erickson will be entitled to participate in all group employment benefits that are offered by the Company to the Company's senior executives and management employees from time to time, subject to the terms and conditions of such benefit plans, including any eligibility requirements.

If the Company terminates Mr. Erickson's employment at any time prior to the expiration of the Term without Cause, as defined in the Employment Agreement, or if Mr. Erickson terminates his employment at any time for "Good Reason" or due to a "Disability", Mr. Erickson will be entitled to receive (i) his Base Salary amount for one year; and (ii) medical benefits for eighteen months.

Properties and Operating Leases

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

Years Ended September 30,	Total
2018	\$ 75,726
2019	119,600
2020	73,450
2021	-
2022	-
Beyond	-
Total	\$ 268,776

Corporate Offices

On April 13, 2017, the Company leased its executive office located at 500 Union Street, Suite 810, Seattle, Washington, USA, 98101. The Company leases 943 square feet and the net monthly payment is \$2,672. The monthly payment increases approximately 3% each year and the lease expires on May 31, 2022.

TransTech Facilities

TransTech is located at 12142 NE Sky Lane, Suite 130, Aurora, OR 97002. TransTech leases a total of approximately 6,340 square feet of office and warehouse space for its administrative offices, product inventory and shipping operations. Effective December 1, 2017, TransTech leases this office from December 1, 2017 at \$4,465 per month. The monthly payment increases approximately 3% each year and the lease expires on January 31, 2020. Until December 1, 2017, TransTech leased this office on a month to month basis at \$6,942 per month.

17. INCOME TAXES

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

Pretax losses arising from United States operations were approximately \$1,222,000 for the year ended September 30, 2017.

Pretax losses arising from United States operations were approximately \$2,634,000 for the year ended September 30, 2016.

The Company has net operating loss carryforwards of approximately \$23,927,000, which expire in 2021-2035. Because it is not more likely than not that sufficient tax earnings will be generated to utilize the net operating loss carryforwards, a corresponding valuation allowance of approximately \$8,135,000 was established as of September 30, 2017. Additionally, under the Tax Reform Act of 1986, the amounts of, and benefits from, net operating losses may be limited in certain circumstances, including a change in control.

Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. There can be no assurance that the Company will be able to utilize any net operating loss carryforwards in the future. The Company is subject to possible tax examination for the years 2011 through 2017.

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

The principal components of the Company's deferred tax assets at September 30, 2017 and 2016 are as follows:

	2017	2016
U.S. operations loss carry forward at statutory rate of 34%	\$ (8,135,208)	\$ (7,719,634)
Non-U.S. operations loss carry forward at statutory rate of 20.5%	-	-
Total	(8,135,208)	(7,719,634)
Less Valuation Allowance	8,135,208	7,719,634
Net Deferred Tax Assets	-	-
Change in Valuation allowance	<u>\$ (530,842)</u>	<u>\$ (129,654)</u>

A reconciliation of the United States Federal Statutory rate to the Company's effective tax rate for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Federal Statutory Rate	-34.0%	-34.0%
Increase in Income Taxes Resulting from:		
Change in Valuation allowance	34.0%	34.0%
Effective Tax Rate	<u>0.0%</u>	<u>0.0%</u>

18. SUBSEQUENT EVENTS

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

Business Loan Agreement

The Company has a \$199,935 Business Loan Agreement with Umpqua Bank. On December 19, 2017, the Umpqua Loan maturity was extended to March 31, 2018 and provides for interest at 4.00% 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.

TransTech Facilities

TransTech is located at 12142 NE Sky Lane, Suite 130, Aurora, OR 97002. TransTech leases a total of approximately 6,340 square feet of office and warehouse space for its administrative offices, product inventory and shipping operations. Effective December 1, 2017, TransTech leases this office from December 1, 2017 at \$4,465 per month. The monthly payment increases approximately 3% each year and the lease expires on January 31, 2020. Until December 1, 2017, TransTech leased this office on a month to month basis at \$6,942 per month.

Senior Convertible Exchangeable Debenture

On December 15, 2017, the Company received \$250,000 and issued a senior convertible exchangeable debenture with a principal amount of \$300,000 (the "Debenture") and a common stock purchase warrant to purchase 1,200,000 shares of common stock (the "Warrant") in a private placement dated December 14, 2017 to an accredited investor pursuant to a Securities Purchase Agreement dated August 14, 2017 (the "Purchase Agreement").

Previously, On August 14, 2017, the Company issued a senior convertible exchangeable debenture with a principal amount of \$360,000 (the “Debenture”) and a common stock purchase warrant to purchase 1,440,000 shares of common stock (the “Warrant”) in a private placement to an accredited investor for gross proceeds of \$300,000 pursuant to a Securities Purchase Agreement dated August 14, 2017. Under the terms of the Purchase Agreement, the investor may purchase up to an aggregate of \$1,000,000 principal amount of Debentures (before a 20% original issue discount) (and Warrants to purchase up to an aggregate of 250,000 shares of common stock).

The Company entered into a General Security Agreement with the investor, pursuant to which the Company has agreed to grant a security interest to the investor in substantially all the Company’s assets, effective upon the filing of a UCC-3 termination statement to terminate the security interest held by Capital Source Business Finance Group in the assets of the Company. In addition, an entity affiliated with Ronald P. Erickson, the Company’s Chief Executive Officer, entered into a Subordination Agreement with the investor pursuant to which all debt owed by the Company to such entity is subordinated to amounts owed by the Company to the investor under the Debenture (including amounts that become owing under any Debentures issued to the investor in the future).

The initial conversion price of the Debenture is \$0.25 per share, subject to certain adjustments. The initial exercise price of the Warrant is \$0.25 per share, also subject to certain adjustments.

As part of the Purchase Agreement, the Company granted the investor “piggyback” registration rights to register the shares of common stock issuable upon the conversion of the Debenture and the exercise of the Warrant with the Securities and Exchange Commission for resale or other disposition.

The Debenture and the Warrant were issued in a transaction that was not registered under the Securities Act of 1933, as amended (the “Act”) in reliance upon applicable exemptions from registration under Section 4(a)(2) of the Act and Rule 506 of SEC Regulation D under the Act.

In connection with the private placement, the placement agent for the Debenture and the Warrant received a cash fee of \$25,000 and the Company expects to issue warrants to purchase shares of the Company’s common stock to the placement agent based on 10% of proceeds.

SIGNATURES

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

VISUALANT, INC.

Date: December 29, 2017

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

By: /s/ Ronald P. Erickson
Ronald P. Erickson
Interim Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

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

SIGNATURES	TITLE	DATE
<u>/s/ Ronald P. Erickson</u> Ronald P. Erickson	Chief Executive Officer, President and Director (Principal Executive Officer)	December 29, 2017
<u>/s/ Ronald P. Erickson</u> Ronald P. Erickson	Interim Chief Financial Officer and Secretary (Principal Financial/Accounting Officer)	December 29, 2017
<u>/s/ Jon Pepper</u> Jon Pepper	Independent Director	December 29, 2017
<u>/s/ Ichiro Takesako</u> Ichiro Takesako	Management Director	December 29, 2017

FOURTH MODIFICATION TO LOAN AND SECURITY AGREEMENT

This **Fourth Modification to Loan and Security Agreement** (this "Modification") is entered into by and between **TransTech Systems, Inc., a(n) Oregon corporation** ("Borrower") and **CapitalSource Business Finance Group, a dba of BFI Business Finance**, a California corporation ("Lender") as of this **6th day of June, 2017**, at **Campbell, California**.

RECITALS

A. Lender and Borrower have previously entered into or are concurrently herewith entering into a Loan and Security Agreement (the "Agreement") dated **December 9, 2008**.

B. Lender and Borrower may have previously executed one or more Modifications to Loan and Security Agreement (the "Previous Modification(s)").

C. Borrower has requested, and Lender has agreed, to modify the Agreement as set forth below.

AGREEMENT

For good and valuable consideration, the parties agree as set forth below:

1. **Incorporation by Reference**. The Agreement and the Previous Modification(s), if any, as modified hereby and the Recitals are incorporated herein by this reference.

2. **Borrowing Authority**. The **Borrowing Resolution and Incumbency Certification** attached hereto as **Exhibit A** and incorporated herein by this reference remains in full force and effect and no change in Borrower's officers or signing authority has occurred.

3. **Effective Date**. The terms of this Modification shall be in full force and effect as of **June 12, 2017**

4. **Modification to Agreement**. The Agreement is hereby modified as follows:

a. The following definition(s) as set forth in "Section 1.1 Definitions," is(are) hereby amended and restated in its(their) entirety as set forth below:

"Maximum Account Advance" means the sum of **Five Hundred Thousand and 00/100 Dollars (\$500,000.00)**.

"Maximum Amount" means the sum of **Five Hundred Thousand and 00/100 Dollars (\$500,000.00)**.

b. The following Section(s) is(are) hereby amended and restated in its(their) entirety as set forth below:

2 . 2 . 9 **Loan Fee**. On the Effective Date of the Fourth Modification to Loan and Security Agreement; and annually (every twelve (-12-) months) thereafter while any Obligations remain outstanding to Lender, Borrower agrees to pay Lender a loan fee equal to one percent (1.00%) of the Maximum Amount (each, the "Loan Fee").

6 . 1 **Basic Term**. This Agreement will be effective upon the Effective Date of the Fourth Modification to Loan and Security Agreement, will continue in full force and effect for twelve (-12-) months thereafter (the "Basic Term"); and shall be further automatically extended, for successive periods equal to twelve (-12-) months (each, a "Renewal Term"), unless Borrower shall have given the Lender written notice of its intention to terminate (a "Termination Notice") at least thirty (30) days prior to the anniversary of each Basic Term, whereupon this Agreement shall terminate as of the date fixed in the Termination Notice. Notwithstanding any contrary provisions herein, Lender reserves the right to terminate this Agreement at its Sole Discretion upon giving sixty (60) days' prior written notice to Borrower pursuant to provisions of Section 15 hereof.

5. Fee. On the Effective Date of the Modification, Borrower agrees to pay a loan fee in the amount of **Five Thousand and 00/100 Dollars (\$5,000.00)**, which sum represents the annual loan fee due on June 12, 2017.

6. Legal Effect. Except as specifically set forth in this Modification, all of the terms and conditions of the Agreement remain in full force and effect.

7. Counterparts. This Modification may be executed in any number of counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single original.

8. Electronic Signature. This Modification, or a signature page thereto intended to be attached to a copy of this Modification, signed and transmitted by facsimile machine, telecopier or other electronic means (including via transmittal of a "pdf" file) shall be deemed and treated as an original document. The signature of any person thereon, for purposes hereof, is to be considered as an original signature, and the document transmitted is to be considered to have the same binding effect as an original signature on an original document. At the request of any party hereto, any facsimile, telecopy or other electronic document is to be re-executed in original form by the persons who executed the facsimile, telecopy or other electronic document. No party hereto may raise the use of a facsimile machine, telecopier or other electronic means or the fact that any signature was transmitted through the use of a facsimile machine, telecopier or other electronic means as a defense to the enforcement of this Modification.

9. Integration. This is an integrated Modification and supersedes all prior negotiations and agreements regarding the subject matter hereof. All amendments hereto must be in writing and signed by the parties.

IN WITNESS WHEREOF, the parties have executed this Fourth Modification to Loan and Security Agreement as of the date first set forth above.

CapitalSource Business Finance Group
a dba of BFI Business Finance

TransTech Systems, Inc.

/s/ Colleen M. Gonia
By: Colleen M. Gonia
Its: Vice President

/s/ Steve Waddle
By: Steve Waddle
Its: Controller

EXHIBIT A

BORROWING RESOLUTION AND INCUMBENCY CERTIFICATION

CapitalSource Business Finance Group
a dba of BFI Business Finance
851 East Hamilton Avenue, 2nd Floor
Campbell, California 95008

In completing this resolution, you must list in this opening paragraph the names of the officer (or officers if more than one) authorized to sign on behalf of this corporation. The undersigned certifies that if more than one officer is listed, any one of such officers has full authority to bind the corporation, and the signature of one officer on all documents is executed by such officer conclusively shall be binding on the corporation.

RESOLVED That

Signature /s/ Ronald P. Erickson Name Ronald P. Erickson Title President/Secretary

Signature /s/ Jeff Wilson Name Jeff Wilson Title CFO

Signature /s/ Steve Waddle Name Steve Waddle Title Controller

(hereinafter sometimes referred to, whether one or more, as "sold officers") of TransTech Systems, Inc., a(n) Oregon corporation (the "Corporation"), are authorized from time to time, in the name of and in behalf of the Corporation, to borrow from CapitalSource Business Finance Group, a dba of BFI Business Finance, a California corporation ("Lender") such sums of money as said officers deem expedient, from time to time to extend or renew any such loan in whole or in part, to contract with Lender upon such terms and conditions as Lender requires for the issuance of commercial letters of credit, and any other credit or financial accommodations, irrespective of the aggregate principal indebtedness of the Corporation with respect to such transactions outstanding and unpaid; and sold officers are hereby authorized to execute in the Corporation's name the note or notes of the Corporation as evidence of each such loan and of an extension or renewal thereof and to execute all contracts and other instruments required by Lender in connection with any loan, each of which contracts, notes and other instruments shall contain such terms and conditions as are agreed upon by said officers and Lender, including, among others not specified in this resolution, provisions regulating or restricting the declaration and payment of dividends by the Corporation, the payment of indebtedness to officers, shareholders, or other persons other than Lender, or other regulations or restrictions of the same or different kinds, conditions as to default, attorneys' fees, waivers of notice, and sale of securities.

RESOLVED FURTHER that said officers are authorized to hypothecate or pledge with and transfer and deliver to Lender as security for the payment of any obligation so incurred such securities or other assets of the Corporation as are agreed upon by them and Lender and to execute in the name of the Corporation such agreements of hypothecation as they deem expedient, and to include in any such agreement such waivers of demand, notice or advertisement and such other waivers and provisions as seem expedient to them, including among others, a provision that any such security may be held by Lender to secure any other indebtedness, whether due or not due, owing to Lender from the Corporation.

RESOLVED FURTHER that said officers may direct Lender orally or by written instruction to disburse the proceeds of any loan made in the name of the Corporation to any person, partnership, corporation, or other legal entity including without limitation to said officers personally (the "Disbursements") and may, either individually or collectively, authorize other employees and/or representatives of the Corporation to direct Lender orally or by written instruction to make Disbursements, so long as such authorization is made in writing and in form and substance acceptable to Lender.

EXHIBIT A

RESOLVED FURTHER, that said officers are authorized and empowered to transact any and all business with Lender which the undersigned could in any way transact, and that said officers, and any other employees of this Corporation be, and each of them individually hereby is further authorized to execute, acknowledge and/or deliver on behalf of the Corporation and in the name of the Corporation any and all assignments, documents, instruments and agreements which said officers deem necessary or convenient in the transaction of such business of the Corporation with Lender.

RESOLVED FURTHER that any and all agreements, instruments and documents previously executed and acts and things previously done to carry out the purposes of this resolutions are ratified, confirmed and approved as the act or acts of the Corporation.

RESOLVED FURTHER that it two or more resolutions of the Corporation authorizing any of the transactions authorized by this resolution are outstanding concurrently at any time the provisions thereof shall be deemed to be cumulative.

RESOLVED FURTHER that said officers are authorized, in addition to any obligations incurred under any of the preceding provisions of this resolution, to discount with Lender any notes, drafts, acceptances, bills of exchange, or other evidences of debt owned by the Corporation upon said terms as are agreed upon by Lender and said officers and in the name of the Corporation, to endorse such evidence of indebtedness so to be discounted by Lender and to guarantee payment thereof to Lender.

RESOLVED FURTHER that upon the execution by said officers of any instrument authorized by this resolution such instrument shall be deemed to be executed by the Corporation whether or not the corporate seal of the Corporation is affixed thereto.

RESOLVED FURTHER that all loans heretofore incurred by said officers in the name of the Corporation and all promissory notes and other documents executed by them in connection therewith or to secure the same are hereby ratified and approved.

RESOLVED FURTHER that Lender shall be able to rely on the incumbency of said officers until written notice is received at the above captioned office.

RESOLVED FURTHER that this resolution shall remain in full force and effect until written notice of its repeal has been received by Lender at the above captioned office, such revocation however not to affect the validity of any note or other instruments theretofore executed.

This is to certify that the foregoing is a true copy of a resolution duly adopted by the directors of TransTech Systems, Inc., a corporation, at a meeting of its board of directors duly and regularly held or in the alternative, pursuant to an action by written consent and that said resolution or action is in full force and effect. This resolution shall be deemed to constitute such resolution or action if none other is provided to Lender.

This will further certify that the signatures indicated above are true specimens of each captioned officer's signature.

Dated as of: December 12, 2016 at Seattle, WA.

Place Corporate Seal Below: _____

/s/ Ronald P. Erickson
Ronald P. Erickson
As Secretary of TransTech Systems, Inc.

EXHIBIT A

The Above Statements Are Correct n/a _____
Signature of Officer or Director, or, if none, a Shareholder other than Secretary, when Secretary is authorized to sign alone.

Failure to complete the above when Secretary is authorized to sign alone shall constitute a certification by Secretary that Secretary is sole Shareholder, Director, and Officer of Corporation.

[Notary acknowledgement may be required for this document]

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, any not the truthfulness, accuracy, or validity of that document.

State of California

County of _____

On _____ before me, _____,
(insert name and title of officer)

personally appeared _____,
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that his/her/there signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

Witness my hand and official seal.

Signature _____ (Seal)

July 6, 2017

Sent Via Electronic Mail

Phil Bosua
philbosua@gmail.com

Dear Phil:

Re: Consulting Relationship

As we discussed, Visualant would like you or your entity to provide certain strategic consulting services. The term of the consulting services shall be for an initial period of one year, to be extended upon mutual agreement.

During your consultancy, you shall focus upon:

- 1) Resolution of the current issues with regard to calibration issues associated with the current Chroma ID technology. These include but are not limited to thermal drift of the LED's, LED change due to ageing, various software modifications pertaining to data analysis and the user interface experience.
- 2) Once the calibration issues have been resolved, assist Visualant in testing and validating that the ChromaID technology can perform water quality analysis on a repeatable basis with the required degree of accuracy necessary for a commercial product.
- 3) Assist Visualant with the development of a prototype water quality testing product ready for commercial market development.
- 4) Work with Visualant on developing a Kickstarter campaign to fund the development of the above referenced commercial water quality testing device.
- 5) Provide assistance to Visualant on defining key strategic markets and developing marketing plans to exploit those markets.

During your consulting period you will be compensated through stock awards in the aggregate of 200,000 shares of common stock released in following manner:

- 1) A stock award of 50,000 shares upon executing this letter agreement.

- 2) A stock award of 50,000 shares upon completion and temperature drift resolution.
- 3) A stock award for 50,000 shares upon conclusion of a successful Kickstarter campaign that raises in excess of \$600,000.
- 4) A stock award of 50,000 shares upon completion of a functional consumer prototype.

The Company shall reimburse your pre-approved out of pocket expenses during the period of your consultancy.

We look forward to a very productive working relationship and significant success.

Please sign and return a copy of this letter to acknowledge your agreement with its terms. I will then obtain approval from the Visualant Board of Directors for the stock awards which are a part of this agreement.

Yours very truly,

/s/ Ronald P. Erickson

Ronald P. Erickson
Chief Executive Officer

Accepted and agreed.

/s/ Phil Bosua

Phil Bosua

500 Union Street | Suite 406 | Seattle, WA 98101
Tel: 206.903.1351 | Fax: 206.903.1352

OFFICE LEASE

LOGAN BUILDING LLC

“LANDLORD”

WITH

VISUALANT INCORPORATED

“TENANT”

**BUILDING: LOGAN BUILDING
SUITES: 810 and 815**

DATED: December 13, 2016

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EXHIBIT A: LEGAL DESCRIPTION OF PROPERTY

EXHIBIT B: FLOOR PLATE SHOWING PREMISES

EXHIBIT C: WORK LETTER

RIDER ONE: RULES

RIDER TWO: GREEN ADDENDUM

OFFICE LEASE

THIS OFFICE LEASE ("Lease") is made and entered into as of this 13th day of December, 2016, by and between LOGAN BUILDING LLC, a Delaware limited liability company ("Landlord"), and VISUALANT INCORPORATED, a Nevada corporation ("Tenant"). In consideration of this Lease, Landlord and Tenant covenant and agree as follows:

SECTION 1: BASIC PROVISIONS

This Section contains the basic lease provisions between Landlord and Tenant.

- A. Building:** 500 Union Street, Seattle, Washington 98101 ("Building"), located on a portion of the real property legally described in Exhibit A attached hereto ("Property").
- B. Premises:** Suites 810 and 815 in the Building as identified in Exhibit B.
- C. Commencement Date:** January 1, 2017, subject to Section 3.
- D. Expiration Date:** January 31, 2022, subject to Section 3.
- E. Rentable Area:** The rentable area of the Premises shall be deemed to contain 943 rentable square feet ("RSF"), subject to Section 31(O).
- F. Tenant's Share:** 00.80%, subject to Section 4 and Section 31(O).
- G. Base Rent:** From the Commencement Date through the Expiration Date, as further described in Section 4, as follows:
- | | | | |
|-----------------|------------------|-------------|-----|
| Months 1 – 12*: | \$34.00/RSF/year | (\$2,671.83 | per |
| | month) | | |
| Months 13 – 24: | \$35.00/RSF/year | (\$2,750.42 | per |
| | month) | | |
| Months 25 – 36: | \$36.00/RSF/year | (\$2,829.00 | per |
| | month) | | |
| Months 37 – 48: | \$37.00/RSF/year | (\$2,907.58 | per |
| | month) | | |
| Months 49 – 60: | \$38.00/RSF/year | (\$2,986.17 | per |
| | month) | | |
| Month 61: | \$39.00/RSF/year | (\$3,064.75 | per |
| | month) | | |
- *Tenant shall be entitled to an abatement of Base Rent in the amount of \$2,671.83, which amount shall be credited against Base Rent for the first calendar month of the Term.
- H. Additional Rent:** Tenant shall pay Tenant's Share of Taxes and Tenant's Share of Expenses in excess of such amounts for the period September 1, 2016 – August 31, 2017 ("Base Year") as further described in Section 4.
- I. Permitted Use:** Executive and administrative office use, subject to Section 8.
- J. Deposits:** \$5,070.00, which Landlord already holds and will not be increased, and shall be subject to Section 7.
- K. Parking:** Tenants at the Logan Building may arrange for parking spaces at the neighboring US Bank Center garage ("Garage"), subject to availability of parking spaces within the Garage and payment of the Garage's then applicable monthly rate.
- L. Broker (if any):** Scott Driver of Scott Driver & Co., P.S., as Tenant's broker

Oscar Oliveira, Damon McCartney and David Marks of Broderick Group, Inc., as Landlord's broker
- M. Guarantor(s):** N/A.
- N. Riders/Exhibits:** Exhibit A (Property)
Exhibit B (Premises)
Exhibit C (Work Letter)
Rider One (Rules)
Rider Two (Green Addendum)
- O. Landlord's Notice Address (subject to Section 24):**

Logan Building LLC
c/o Unico Properties LLC
Attn: Senior Vice President / CFO
1215 Fourth Avenue, Suite 600
Seattle, WA 98161

With a copy to:

Logan Building LLC
c/o Unico Properties LLC
Attn: Logan Building Property Manager
1215 Fourth Avenue, Suite 600
Seattle, WA 98161

P. Tenant's Notice Address (subject to Section 24):

Visualant Incorporated
Attn: Office Manager
The Logan Building
500 Union Street, Suite 810
Seattle, WA 98101

Q. Rent Payments:

Rent shall be paid to the following, or to such other parties and addresses as to which Landlord shall provide advance notice:

Logan Building LLC
c/o Unico Properties LLC
Attn: Accounts Receivable
1215 Fourth Avenue, Suite 600
Seattle, WA 98161

The foregoing provisions shall be interpreted and applied in accordance with the other provisions of this Lease. The terms of this Section, and the terms defined in Section 31 and other Sections, shall have the meanings specified therefor when used as capitalized terms in other provisions of this Lease or related documentation (except as expressly provided to the contrary therein).

SECTION 2: PREMISES AND PREPARATION OF PREMISES

A. Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises subject to the provisions herein contained. Tenant agrees to accept the Premises "as is" without any agreements, representations, understandings or obligations on the part of Landlord to construct any improvements within the Premises other than the Tenant Improvements, if any, described in Exhibit C, or to perform any repairs or maintenance to the Premises or Building except as expressly provided under this Lease. Tenant further acknowledges that, except as otherwise expressly stated in this Lease, Landlord has not made any representation or warranty (express or implied) with respect to the habitability, condition or suitability of the Premises, Building or Property for Tenant's purposes or any particular purpose.

B. Preparation of Premises. The obligations of Landlord and Tenant to perform work and supply materials and labor to prepare the Premises for Tenant's occupancy shall be as set forth in Exhibit C attached hereto and incorporated herein. Landlord's obligation, if any, for completion of the Premises ("Landlord's Work") shall be defined and limited by said Exhibit C, and Landlord shall not be required to furnish or install any item not indicated thereon. Any additional alterations or improvements to the Premises beyond those set forth on Exhibit C shall be at Tenant's sole cost and expense and subject to all provisions of Section 10, including without limitation the prior approval of Landlord. Taking possession of the Premises by Tenant shall be conclusive evidence the Premises were, on that date, in good, clean and tenantable condition and delivered in accordance with this Lease, unless set forth otherwise in a mutually agreed upon written "punch list."

C. Governing Property Documents. The Property is subject to and governed by that First Amended and Restated Pacific First Center/Logan Building Agreement recorded under King County Recording No. 8704210116, as amended by any other amendments thereto hereafter adopted (collectively, "Governing Property Documents"). Tenant's use of the Premises, Property and Common Areas, and rights and interest in this Lease, all are subject to the Governing Property Documents, and Tenant shall be responsible for complying with those requirements in the Governing Property Documents applicable to Tenant's use of the Premises. Additions and modifications to Governing Property Documents shall be binding on Tenant upon delivery of a copy of them to Tenant.

SECTION 3: TERM AND COMMENCEMENT

A. Term and Confirmation. The term ("Term") of this Lease shall commence on the Commencement Date and end on the Expiration Date as specified in Section 1 above, unless sooner terminated as provided herein, subject to adjustment as provided below and the other provisions hereof. If the Commencement Date is advanced or postponed as provided below, the Expiration Date set forth in Section 1 shall not be changed, unless Landlord so elects by notice to Tenant. Tenant shall execute a confirmation of the Commencement Date and other matters in such form as Landlord may reasonably request within ten (10) days after requested (but nothing herein shall require Landlord to so request); any failure to respond within such time shall be deemed an acceptance of the matters as set forth in Landlord's confirmation. If Tenant disagrees with Landlord's adjustment of the Commencement Date, Tenant shall pay Rent and perform all other obligations commencing on the date determined by Landlord, subject to refund or credit when the matter is resolved.

B. Adjustments to Commencement Date. The parties acknowledge that the Commencement Date specified in Section 1 is an estimated date. This Lease shall commence on the Commencement Date specified in Section 1 if Landlord's Work is Substantially Complete (as that term is defined in Exhibit C) by such date but otherwise the Commencement Date shall be adjusted to be the first to occur of the following events: (i) the date Landlord provides Tenant notice that Landlord's Work is Substantially Complete; (ii) the date on which Tenant takes possession or commences beneficial occupancy of the Premises; or (iii) if Substantial Completion of Landlord's Work is delayed in whole or in part due to Tenant Delay (as that term is defined in Exhibit C), then the date determined by Landlord as the date upon which Landlord's Work would have been Substantially Complete, but for Tenant's acts or omissions. In no event shall Landlord have any liability for loss or damage to Tenant resulting in any delay in the Commencement Date, nor shall Tenant have any right to terminate this Lease, and Tenant's sole recourse shall be the postponement of Rent and other obligations until the Commencement Date is established as set forth above.

C. Early Access. If Landlord's Work is Substantially Complete prior to the Commencement Date specified in Section 1, upon reasonable notice from Tenant to Landlord, Tenant shall be entitled to enter the Premises for fixturing and move in purposes provided (i) Tenant shall not interfere with Landlord's completion of Landlord's Work and shall coordinate its activities and comply with Landlord's directives, (ii) all provisions of this Lease other than those relating to payment of Rent shall apply to any such pre-commencement entry (including without limitation all insurance, indemnity and freedom from lien provisions), and (iii) Tenant shall not beneficially occupy the Premises (or any part thereof) or commence business operations from the Premises (or any part thereof) during such period.

SECTION 4: BASE RENT AND ADDITIONAL RENT

A. Base Rent. Subject to adjustment for expenses, taxes and required capital expenditures as set forth in this Section 4, Tenant shall pay Landlord the monthly Base Rent set forth in Section 1 in advance on or before the first day of each calendar month during the Term. The Base Rent for any fractional month occurring prior to the Rent Abatement Period and for the first full month of the Lease Term which occurs after the expiration of the Rent Abatement Period shall be paid by Tenant at the time of Tenant's execution of this Lease.

B. Taxes and Expenses. Tenant shall pay Landlord "Tenant's Share of Taxes" and "Tenant's Share of Expenses" in the manner described below. All such charges shall be deemed to constitute "Additional Rent" which shall be deemed to accrue uniformly during the calendar year in which the payment is due.

(i) During each calendar year after the Base Year identified in Section 1(H) above, Tenant agrees to pay as "Additional Rent" for the Premises, "Tenant's Share" (defined below) of all increases in Taxes and Expenses incurred by Landlord in the operation of the Building and Property, over the amount of the Property Taxes and Expenses incurred by Landlord in the operation of the Building and Property during the Base Year. For purposes of this Lease, "Tenant's Share" shall mean the ratio between the rentable area of the Premises and the rentable area of the Building. Tenant's Share, calculated based on the initial square foot area of the Premises, is set forth in Section 1(F) above, and is subject to adjustment as set forth in Section 31(O).

(ii) Prior to or promptly after the commencement of each calendar year following the Base Year, Landlord shall give Tenant a written estimate of the anticipated increases in Taxes and Expenses over the Base Year and Tenant's Share of such increases. Tenant shall pay such estimated amount to Landlord in equal monthly installments, in advance, without deduction or offset, on or before the first day of each calendar month, with the monthly installment of Base Rent payable in accordance with Section 4(A) above. After the end of each calendar year, Landlord shall furnish to Tenant a statement showing in reasonable detail the actual increases over the Base Year in the Taxes and Expenses incurred by Landlord during the applicable calendar year and Tenant's Share thereof. If the statement shows Tenant's Share of the actual increases exceeds the amount of Tenant's estimated payments, within thirty (30) days after receiving the statement, Tenant shall pay the amount of the deficiency to Landlord. If the statement shows Tenant has overpaid, the amount of the excess shall be credited against installments next coming due under this Section 4; provided, however upon the expiration or earlier termination of the Lease Term, if Tenant is not then in default under this Lease, Landlord shall refund the excess to Tenant.

(iii) If at any time during any calendar year of the Lease Term (other than the Base Year) the Taxes applicable to the Building and Property change and/or any information used by Landlord to calculate the estimated Expenses changes, Tenant's estimated share of such Taxes and/or Expenses, as applicable, may be adjusted accordingly effective as of the month in which such changes become effective, by written notice from Landlord to Tenant of the amount or estimated amount of the change, the month in which effective, and Tenant's Share thereof. Tenant shall pay such increase to Landlord as a part of Tenant's monthly payments of estimated Taxes or Expenses as provided above, commencing with the month following the month in which Tenant is notified of the adjustment.

(iv) For purposes of this Lease, the term "Expenses" means all costs of and expenses paid or incurred by Landlord for maintaining, operating, repairing, replacing and administering the Building and Property, including all Common Areas and facilities and Systems and Equipment, and shall include the following costs by way of illustration but not limitation: water and sewer charges; insurance premiums; license, permit, and inspection fees; heat; light; power; steam; janitorial and security services; labor; salaries; air conditioning; landscaping; maintenance and repair of driveways and surface areas; supplies; materials; equipment; tools; the cost of capital replacements (as opposed to capital improvements); the cost of any capital improvements or modifications made to the Building by Landlord that are intended to reduce Expenses, are required under any Laws not applicable to the Building or Property or not in effect at the time the Building was constructed, or are made for the general benefit and convenience of all tenants of the Building; all property management costs, including office rent for any property management office and professional property management fees; legal and accounting expenses; and all other expenses or charges which, in accordance with industry standard accounting and management practices, would be considered an expense of maintaining, operating, repairing, replacing or administering the Building or Property. Capital costs included in Expenses shall be amortized over such reasonable period as Landlord shall determine with a return on capital at the current market rate per annum on the unamortized balance or at such higher rate as may have been paid by Landlord on funds borrowed for the purpose of constructing such capital replacements or improvements.

(v) For purposes of this Lease, the term "Taxes" means all real estate taxes or personal property taxes and other taxes, surcharges and assessments, unforeseen as well as foreseen, which are levied with respect to the Building and Property and any improvements, fixtures and equipment and other property of Landlord, real or personal, located in the Building or on the Property and used in connection with the operation of the Building or Property and any tax, surcharge or assessment which shall be levied in addition to or in lieu of real estate or personal property taxes, other than taxes covered in Section 15. The term "Taxes" shall also include any rental, excise, sales, transaction, privilege, or other tax or levy, however denominated, imposed upon or measured by the rental reserved hereunder or on Landlord's business of leasing the Premises, excepting only net income, inheritance, gift and franchise taxes.

(vi) Notwithstanding anything to the contrary contained above, as to each specific category of expense which one or more tenants of the Building, at Landlord's sole discretion, either pays directly to third parties or specifically reimburses to Landlord (e.g., separately metered utilities, separately contracted janitorial service, property taxes directly reimbursed to Landlord, etc.) such tenant(s) payments with respect thereto shall not be included in Expenses for purposes of this Section 4, but Tenant's Share of each of such category of expense shall be adjusted by excluding from the denominator thereof the rentable area of all such tenants paying such category of expense directly to third parties or reimbursing the same directly to Landlord. Tenant shall not enter into separate contracts to provide any specific utility or service normally provided by the Building, without Landlord's prior written consent in Landlord's sole discretion. Moreover, if Tenant pays or directly reimburses Landlord for any such category of expense (which shall only be Landlord's prior consent), such category of expense shall be excluded from the determination of Expenses for Tenant to the extent such expense was incurred with respect to space in the Building actually leased to or occupied by other Tenants.

(vii) Notwithstanding anything to the contrary contained above, Landlord shall have the right, from time to time, to equitably allocate some or all of the Expenses among different portions or occupants of the Building ("Cost Pools"), in good faith and in its reasonable discretion. Such Cost Pools may include, but shall not be limited to, the office space tenants of the Building, and the retail space tenants of the Building. The Expenses within each such Cost Pool shall be allocated and charged to the tenants within such Cost Pool reasonably, in good faith and in an equitable manner.

(viii) If the average occupancy of the Building is less than ninety-five percent (95%) during any calendar year, Landlord will, in accordance with industry standard accounting and management practices, determine the amount of variable Taxes and Expenses (i.e. those items which vary according to occupancy levels) that would have been paid had the Property been ninety-five percent (95%) occupied, and the amount so determined shall be deemed to have been the amount of Taxes and Expenses for such year.

C. Prorations. If the Term commences on a day other than the first day of a calendar month or ends on a day other than the last day of a calendar month, the Base Rent and any other amounts payable on a monthly basis shall be prorated on a per diem basis for such partial calendar months. If the Base Rent is scheduled to increase under Section 1 other than on the first day of a calendar month, the amount for such month shall be prorated on a per diem basis to reflect the number of days of such month at the then current and increased rates, respectively. If the Term commences other than on January 1, or ends other than on December 31, Tenant's obligations to pay amounts under this Section 4 towards Taxes and Expenses for such first or final calendar years shall be prorated on a per diem basis to reflect the portion of such years included in the Term.

D. Payments After Lease Term Ends. Tenant's obligations to pay its share of Taxes and Expenses (or any other amounts) as provided in this Lease accruing during, or relating to, the period prior to expiration or earlier termination of this Lease, shall survive such expiration or termination. Landlord may reasonably estimate all or any of such obligations within a reasonable time before, or anytime after, such expiration or termination. Tenant shall pay the full amount of such estimate, and any additional amount due after the actual amounts are determined, in each case within ten (10) days after Landlord sends a statement therefor. If the actual amount is less than the amount Tenant pays as an estimate, Landlord shall refund the difference within thirty (30) days after such determination is made.

E. Landlord's Accounting Practices and Records. Unless Tenant takes exception by notice to Landlord within thirty (30) days after Landlord provides any statement to Tenant for any item of Additional Rent, such statement shall be considered final and binding on Tenant (except as to additional Expenses or Taxes not then known or omitted by error). If Tenant takes exception by notice within such time, Landlord may seek confirmation from Landlord's independent certified public accountant as to the proper amount of Taxes and Expenses determined in accordance with sound accounting practices. In such case: (i) such confirmation shall be considered final and binding on both parties (except as to additional expenses or taxes not then known or omitted by error), and (ii) Tenant shall pay Landlord for the cost of such confirmation, unless it shows that Taxes and Expenses were overstated by at least five percent (5%). Pending resolution of any such exceptions, Tenant shall pay all amounts shown on such Landlord's statement, subject to credit, refund or additional payment after any such exceptions are resolved.

F. General Payment Matters. Base Rent, Additional Rent which includes without limitation Tenant's Share of Taxes, Tenant's Share of Expenses and any other amounts which Tenant is or becomes obligated to pay Landlord under this Lease or other agreement entered in connection herewith, are sometimes herein referred to collectively as "Rent," and all remedies applicable to the nonpayment of Rent shall be applicable thereto. Rent shall be paid in good funds and legal tender of the United States of America without prior demand, deduction, recoupment, set-off or counterclaim, and without relief from any valuation or appraisal Laws. Rent obligations hereunder are independent covenants. In addition to all other Landlord remedies (i) any Rent not paid by Tenant when due shall accrue interest from the due date at the Default Rate until payment is received by Landlord and (ii) in addition to such interest, Tenant shall pay Landlord a service charge of two hundred fifty dollars (\$250.00) or five percent (5%) of the delinquent amount, whichever is greater, if any portion of Rent is not received within five (5) business days after the due date. No delay by Landlord in providing any Rent statement to Tenant shall be deemed a default by Landlord or a waiver of Landlord's right to require payment of Tenant's obligations hereunder including those for actual or estimated taxes, expenses or capital expenditures. In no event shall a decrease in Taxes or Expenses, below their respective Base Year levels, ever decrease the monthly Base Rent or give rise to a credit in favor of Tenant. Landlord may apply payments received from Tenant to any obligations of Tenant then accrued, without regard to such obligations as may be designated by Tenant.

SECTION 5: QUIET ENJOYMENT

Landlord agrees that if Tenant timely pays the Rent and performs the terms and provisions hereunder, Tenant shall hold the Premises during the Term, free of lawful claims by any party acting by or through Landlord, subject to all other terms and provisions of this Lease.

SECTION 6: UTILITIES AND SERVICES

A. Standard Landlord Utilities and Services. Provided Tenant is not in default of this Lease, Landlord shall provide Tenant the following utilities and services:

(i) Elevator service during Normal Business Hours and the service of at least one elevator during all other hours.

(ii) Heating and cooling to maintain a temperature condition which in Landlord's judgment provides for comfortable occupancy of the Premises under normal business operations during Normal Business Hours, but not Saturdays, Sundays or those legal holidays generally observed in the State of Washington, provided Tenant complies with Landlord's instructions regarding use of window coverings and thermostats and Tenant does not utilize heat generating machines or equipment which affect the temperature otherwise maintained by the air cooling system. Upon request Landlord shall make available at Tenant's expense after-hours heat or air cooling. The minimum use of after-hours heat or air cooling and the cost thereof shall be determined by Landlord and confirmed in writing to Tenant, as the same may change from time to time.

(iii) Water for drinking, lavatory, and toilet purposes.

(iv) Electricity for building-standard overhead office lighting fixtures, and equipment and accessories customary for offices (up to 280 hours per month), where: (a) the connected electrical load of all of the same does not exceed an average of 4 watts per usable square foot of the Premises (or such lesser amount as may be available, based on the safe and lawful capacity of the electrical circuit(s) and facilities serving the Premises), (b) the electricity is at nominal 120 volts, single phase (or 110 volts, depending on available service in the Building), and (c) the systems and equipment are suitable, the safe and lawful capacity thereof is not exceeded, and sufficient capacity remains at all times for other existing and future tenants, as determined in Landlord's reasonable discretion.

(v) Janitorial service. Janitorial service as customary for comparable buildings within the market which includes vacuum cleaning of carpets and cleaning of Building standard vinyl composition tile, but no other services with respect to carpets or nonstandard floor coverings.

(vi) Maintain the windows, doors, floors and walls (exclusive of coverings), ceilings, plumbing and plumbing fixtures, and electrical distribution system and lighting fixtures in good condition and repair, except for damage caused by Tenant, its employees, agents, invitees or visitors, except that such service will not be provided as to any of the foregoing items that are not standard for the Building.

(vii) Replacement of burned out fluorescent lamps in light fixtures which are standard for the Building. Burned out lamps or other light sources in fixtures which are not standard for the Building will be replaced by Landlord at Tenant's expense.

B. Interruptions. Landlord shall use reasonable diligence to remedy an interruption in the furnishing of such services and utilities. If, however, any governmental authority imposes regulations, controls or other restrictions upon Landlord or the Building which would require a change in the services provided by Landlord under this Lease, Landlord may comply with such regulations, controls or other restrictions, including without limitation, curtailment, rationing or restrictions on the use of electricity or any other form of energy serving the Premises. Tenant will cooperate and do such things as are reasonably necessary to enable Landlord to comply with such regulations, controls or other restrictions.

C. Non-Standard Usage. Whenever heat generating machines or equipment or lighting other than building standard lights are used in the Premises by Tenant which affect the temperature otherwise maintained by the air cooling system, Landlord shall have the right to install supplementary air cooling units in the Premises, and the cost thereof, including the cost of installation and the cost of operation and maintenance thereof, shall be paid by Tenant to Landlord upon billing by Landlord. Landlord may impose a reasonable charge for utilities and services, including without limitation, air cooling, electric current and water, required to be provided the Premises by reason of (a) any substantial recurrent use of the Premises at any time other than during Normal Business Hours (b) any use beyond what Landlord agrees to furnish as described above, (c) electricity used by equipment designated by Landlord as high power usage equipment or (d) the installation, maintenance, repair, replacement or operation of supplementary air cooling equipment, additional electrical systems or other equipment required by reason of special electrical, heating, cooling or ventilating requirements of equipment used by Tenant at the Premises. High power usage equipment includes without limitation, data processing machines, punch card machines, computers and machines which operate on 220-volt circuits. Tenant shall not install or operate high power usage equipment on the Premises without Landlord's prior written consent, which may be refused unless (i) Tenant confirms in writing its obligation to pay the additional charges necessitated by such equipment and such equipment does not adversely affect operation of the Building, and (ii) the Building electrical capacity to the floor(s) containing the Premises will not be exceeded. At Landlord's option, separate meters for such utilities and services may be installed for the Premises and Tenant upon demand therefor, shall immediately pay Landlord for the installation, maintenance, repair and replacement of such meters.

D. Limitation. Landlord does not warrant that any of the services and utilities referred to in this Section 6 will be free from interruption. Interruption of services and utilities shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises or any part thereof or render Landlord liable to Tenant for damages or loss of any kind, or relieve Tenant from performance of Tenant's obligations under this Lease.

E. Utility Providers. Notwithstanding anything to the contrary in this Lease, Landlord shall have the sole, exclusive and absolute right to determine, select and contract with utility company or companies that will provide electricity and other basic utility service to the Building, Property and Premises. If permitted by Law, during the Term of this Lease, Landlord shall have the right at any time, and from time to time, to either contract for services from a different company or companies providing electricity or other basic utility service (each such company hereinafter an "Alternate Service Provider") or continue to contract for service from the service provider(s) that is providing such utility service to the Building, Property or Premises at the Commencement Date (each the "Existing Service Provider"). Tenant shall cooperate with Landlord, the Existing Service Provider and any Alternate Service Provider at all times and, as reasonably necessary, shall allow Landlord, the Existing Service Provider and any Alternate Service Provider access to the Building's utility lines, plumbing, feeders, risers, wiring, and any other machinery or utility access ways within the Premises.

SECTION 7: DEPOSITS

A. Security Deposit. Upon execution of this Lease, Tenant shall deposit a security deposit in the amount set forth in Section 1 with Landlord. If Tenant is in default, Landlord can use the security deposit or any portion of it to cure the default or to compensate Landlord for any damages sustained by Landlord resulting from Tenant's default. Upon demand, Tenant shall immediately pay to Landlord a sum equal to the portion of the security deposit expended or applied by Landlord to restore the security deposit to its full amount. In no event will Tenant have the right to apply any part of the security deposit to any Rent or other sums due under this Lease. If Tenant is not in default at the expiration or termination of this Lease, Landlord shall return the security deposit to Tenant. Landlord's obligations with respect to the deposit are those of a debtor and not of a trustee, and Landlord can commingle the security deposit with Landlord's general funds. Landlord shall not be required to pay Tenant interest on the deposit. Landlord shall be entitled to immediately endorse and cash Tenant's prepaid deposit; however, such endorsement and cashing shall not constitute Landlord's acceptance of this Lease. In the event Landlord does not accept this Lease, Landlord shall return said prepaid deposit. In addition, Tenant hereby grants to Landlord a security interest in all of Tenant's tangible personal property and fixtures located at the Premises, and in all of Tenant's intangible property used in regard to, or arising from, business conducted at or from the Premises, including but not limited to all equipment, inventory, accounts, furniture, trade fixtures, instruments, general intangibles and all other rights to payment, and the proceeds and products therefrom, and all after acquired property. This Security Agreement and this grant of a security interest is given to secure Tenant's performance and payment of all Rent and all other obligations of Tenant to Landlord under this Lease. Tenant hereby appoints Landlord as its attorney-in-fact for the limited purpose of preparing, executing and filing on Tenant's behalf all appropriate UCC financing statements Landlord deems reasonably necessary to perfect the security interest granted Landlord hereunder, all without further notice to Tenant.

SECTION 8: USE, COMPLIANCE WITH LAWS AND RULES

A. Use of Premises and Compliance With Laws. Tenant shall use the Premises solely for the purposes set forth in Section 1 and for no other purpose without obtaining the prior written consent of Landlord, which shall not be unreasonably withheld for uses consistent with Landlord's then existing use criteria for the Building. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises or with respect to the suitability of the Premises or the Building for the conduct of Tenant's business, nor has Landlord agreed to undertake any modification, alteration or improvement to the Premises or the Building, except as provided in writing in this Lease. Tenant acknowledges that Landlord may from time to time, at its sole discretion, make such modifications, alterations, repairs, deletions or improvements to the Building or Property as Landlord may deem necessary or desirable, without compensation or notice to Tenant, provided that such alterations, repairs, deletions or improvements shall not materially adversely affect Tenant's use of the Premises during Normal Business Hours and in no event shall Landlord be liable for any consequential damages. Tenant shall promptly comply with all Laws affecting the Premises and the Building, as well as the Rules (defined below), and to any reasonable modifications to the Rules as Landlord may adopt from time to time. Tenant acknowledges that, except for Landlord's obligations pursuant to Sections 9 and 30, Tenant is solely responsible for ensuring that the Premises comply with any and all Laws applicable to Tenant's use of and conduct of business on the Premises, and that Tenant is solely responsible for any alterations or improvements that may be required by such Laws, now existing or hereafter adopted. Tenant shall not do or permit anything to be done in or about the Premises or bring or keep anything in the Premises that will in any way increase the premiums paid by Landlord on its insurance related to the Building or which will in any way increase the premiums for fire or casualty insurance carried by other tenants in the Building. Tenant will not perform any act or carry on any practices that may injure the Premises or the Building that may be a nuisance or menace to other tenants in the Building or that shall in any way interfere with the quiet enjoyment of such other tenants. Tenant shall not do anything on the Premises which will overload any existing parking or service to the Premises.

B. Rules. Tenant shall comply with the Rules set forth in Rider One attached hereto (the "Rules") in addition to all other terms of this Lease. Landlord shall have the right, by notice to Tenant or by posting at the Building, to reasonably amend such Rules and supplement the same with other reasonable Rules relating to the Building or Property, or the promotion of safety, care, efficiency, cleanliness or good order therein. Nothing herein shall be construed to give Tenant or any other Person any claim, demand or cause of action against Landlord arising out of the violation of such Rules by any other tenant or visitor of the Building or Property, or out of the enforcement, modification or waiver of the Rules by Landlord in any particular instance.

SECTION 9: MAINTENANCE AND REPAIRS

Unless expressly provided otherwise in this Lease, and in addition to the provisions of Section 6(A)(vi), Landlord shall maintain, in good condition, the Common Areas of the Building, the structural parts of the Building which shall include only the foundations, bearing and exterior walls, subflooring, gutters, downspouts, and the roof of the Building and the Building Systems and Equipment; provided, in the event any such replacements, repairs or maintenance are caused by or result from Tenant's excessive or improper use or occupation thereof or which are caused by or result from the negligence or improper conduct of Tenant, its agents, employees or invitees, the cost of such repairs shall be paid solely by Tenant and Tenant shall pay the cost thereof within ten (10) days of notice from Landlord. Except as provided above, and subject to Section 10 of this Lease, Tenant shall maintain and repair the Premises in neat, clean, sanitary and good condition, including, without limitation, maintaining and repairing all walls, storefronts, ceilings, interior and exterior doors, exterior and interior windows and fixtures, Premises' specific systems and equipment, and interior plumbing serving the Premises as well as any damage to the Building, Property or Premises caused by Tenant, its agents, employees or invitees. If Tenant shall fail to keep and preserve the Premises in said condition and state or repair, Landlord may, at its option (but with no obligation) put or cause the same to be put into the condition and state of repair agreed upon, and in such case Tenant, on demand, shall pay the cost thereof.

SECTION 10: ALTERATIONS AND LIENS

A. Alterations. Subsequent to the completion of any Landlord's Work pursuant to Section 2, Tenant shall not attach any fixtures, equipment or other items to the Premises, or paint or make any other additions, changes, alterations, repairs or improvements (collectively hereinafter "alterations") to the Premises, Building or Property without Landlord's prior written consent, which with respect to alterations to the Premises will not be unreasonably withheld so long as Tenant is not then, nor has been, in default of this Lease (beyond any applicable cure period). If Landlord consents to any alteration, Landlord may post notices of nonresponsibility in accordance with Law. Any alterations so made shall remain on and be surrendered with the Premises upon expiration or earlier termination of this Lease, except that Landlord may, within thirty (30) days before or thirty (30) days after expiration or earlier termination hereof elect to require Tenant to remove any or all alterations at Tenant's sole costs and expense. At the time Tenant submits plans for requested alterations to Landlord for Landlord's approval, Tenant may request Landlord to identify which alterations Landlord may require Tenant to remove at the termination of or expiration of this Lease, and Landlord shall make such identification simultaneous with its approval (if any) of the alterations. If Landlord elects to require removal of alterations, then at its own and sole cost Tenant shall restore the Premises to the condition designated by Landlord in its election, before the last day of the term or within thirty (30) days after notice of its election is given, whichever is later.

B. Performance. In the event Landlord consents in writing to Tenant's requested alteration of the Premises, Tenant shall only contract with a contractor approved by Landlord for the construction of such alterations, shall secure all appropriate governmental approvals and permits and shall complete such alterations with due diligence, in a neat, clean, good and workmanlike manner and in strict compliance with the plans and specifications approved by Landlord. All such construction shall be performed in a manner which shall not interfere with the occupancy of the other tenants of the Building. All cost, expenses and fees related to or arising from construction of any alteration shall be paid by Tenant prior to delinquency. There shall also be included within the cost of any such alteration work (whether for initial tenant improvements or for any subsequent alteration) a fee to Landlord for Tenant's use of Landlord's personnel involved in the supervision, coordination, inspection and the like pertaining to such work. Said fee shall be ten percent (10%) of the total cost of the alteration work (including costs of plans and permits), plus Landlord's out-of-pocket costs (if any), which shall be paid by Tenant within ten (10) days after presentment by Landlord of an invoice therefor. Landlord may impose additional reasonable conditions and rules respecting the manner and times in which such alteration work may be performed.

C. Liens. Tenant shall pay all costs for alterations when due. Tenant shall keep the Property, Building, Premises and this Lease free from any mechanic's, materialman's, architect's, engineer's or similar liens or encumbrances, and any claims therefor, or stop or violation notices, in connection with any alteration. Tenant shall remove any such claim, lien or encumbrance, or stop or violation notices of record, by bond or otherwise within ten (10) days after notice by Landlord. If Tenant fails to do so, such failure shall constitute a default by Tenant, and Landlord may, in addition to any other remedy, pay the amount (or any portion thereof) or take such other action as Landlord deems necessary to remove such claim, lien or encumbrance, or stop or violation notices, without being responsible for investigating the validity thereof. The amount so paid and costs incurred by Landlord shall be deemed additional Rent under this Lease payable upon demand, without limitation as to other remedies available to Landlord. Landlord may, in its discretion, require Tenant to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of such alterations and naming Landlord as a co-obligee. Nothing contained in this Lease shall authorize Tenant to do any act which shall subject Landlord's title to, or any Lender's interest in, the Building, Property or Premises to any such claims, liens or encumbrances, or stop or violation notices, whether claimed pursuant to statute or other Law or express or implied contract.

D. Construction Insurance. In addition to the requirements of Section 11 below, in the event that Tenant makes any alterations, prior to the commencement of such alterations, Tenant shall provide Landlord with evidence that Tenant or its general contractor, as appropriate, carries "Builder's All Risk" insurance or its equivalent in an amount approved by Landlord covering the construction of such alterations, and such other insurance as Landlord may reasonably require, it being understood and agreed that all of such alterations shall be insured by Tenant pursuant to Section 10 of this Lease immediately upon completion thereof.

SECTION 11: INSURANCE AND WAIVER OF SUBROGATION

A. Insurance. During the term of this Lease, Tenant, at its sole cost and expense, shall continuously maintain the following types of insurance coverages: (i) All Risk or Causes of Loss - Special Form property insurance, including fire and extended coverage, sprinkler leakage, vandalism, malicious mischief, wind and flood coverage, covering full replacement value of all of Tenant's personal property, trade fixtures and improvements and alterations in and to the Premises, with coverages that also include "Business Personal Property" and "Business Income Coverage" covering at least one year of anticipated income; (ii) both worker's compensation insurance to the applicable statutory limit, if any, and employer's liability insurance to the limit of \$1,000,000 per occurrence; (iii) commercial general liability insurance (occurrence based) insuring Tenant against any liability arising out of its use, occupancy or maintenance of the Premises or Building, or the business operated by Tenant pursuant to the Lease, and providing coverage for death, bodily injury and disease, property damage or destruction (including loss of use), products and completed operations liability, contractual liability which includes all of Tenant's indemnity obligations under this Lease (and the certificate evidencing Tenant's insurance coverage shall state that the insurance includes the liability assumed by Tenant under this Lease), fire legal liability and advertising injury liability damage with a combined single limit of no less than \$5,000,000 (or in the alternative a primary policy combined single limit of \$2,000,000 with an Excess Limits (Umbrella) Policy in the amount of no less than \$3,000,000); and (iv) Business Automobile Liability Insurance for Tenant owned vehicles (only) in the amount of \$1,000,000 combined single limit (property damage and liability). The amount of any deductible or self-insured retention for the coverages described in (i) and (iii) shall not exceed Five Thousand Dollars (\$5,000.00), and any deductible or self-insurance provisions under any other insurance policies required to be maintained by Tenant shall be subject to Landlord's prior written approval, such approval not to be unreasonably withheld.

B. Additional Requirements.

(i) All insurance required to be carried by Tenant hereunder shall include the following provisions: (a) shall name Landlord, Landlord's property manager, and Landlord's lender (if any) as additional insureds; (b) shall release Landlord (and its property manager and lender, if any) from any claims for damage to business or to any person or the Premises, the Building and the Property and to Tenant's fixtures, personal property, improvements and alterations in or on the Premises, caused by or resulting from risks insured against under any insurance policy carried by Tenant in force at the time of such damage; (c) shall be issued by Insurance companies authorized to do business in the State of Washington, with policyholder ratings not lower than "A-" and financial ratings not lower than "VII" in Best's Insurance Guide (latest edition in effect as of the date of this Lease and subsequently in effect as of the date of renewal of the required policies); (d) Shall be issued as (and separately endorsed as) a primary and noncontributory policy as such policies apply to Landlord (except for workers compensation); and (e) Shall contain an endorsement requiring at least thirty (30) days prior written notice of cancellation to Landlord and Landlord's lender (if any), before cancellation or change in coverage, scope or amount of any policy. Tenant shall deliver certificates of such policies together with evidence of payment of all current premiums to Landlord within thirty (30) days of execution of this Lease; provided, if such certificates do not on their face evidence such terms, Tenant shall also provide full copies of such endorsements or policies as necessary to evidence that all of the coverage requirements of this Section 11 have been satisfied by Tenant. Any certificate of insurance shall designate Tenant as the insured, specify the Premises location, list Landlord (and its property manager and lender, if any) as additional insureds (with the additional insured endorsement attached thereto), and list Landlord with Landlord's current address as "Certificate Holder." If certificates are supplied (rather than the policies), Tenant shall allow Landlord, at all reasonable times, to inspect the policies of insurance required herein. Tenant shall take all necessary steps to renew all insurance at least thirty (30) days prior to such insurance expiration dates and shall provide Landlord a copy of the renewed certificate, prior to said policy's expiration date. If Tenant fails at any time to maintain the insurance required by this Lease, and fails to cure such default within five (5) business days of written notice from Landlord then, in addition to all other remedies available under this Lease and applicable Law, Landlord may purchase such insurance on Tenant's behalf and the cost of such insurance shall be Additional Rent due within ten (10) days of written invoice from Landlord to Tenant.

(ii) It is expressly understood and agreed that the coverages required by this Section 11 represent Landlord's minimum requirements and such are not to be construed to void or limit Tenant's obligations contained in this Lease, including without limitation Tenant's indemnity obligations hereunder. Neither shall (a) the insolvency, bankruptcy or failure of any insurance company carrying Tenant, (b) the failure of any insurance company to pay claims occurring nor (c) any exclusion from or insufficiency of coverage be held to affect, negate or waive any of Tenant's indemnity obligations under this Lease or any other provision of this Lease. Landlord reserves the right to require Tenant provide evidence of any additional insurance as it reasonably deems appropriate, as well as the right to require an increase in the amounts of insurance or the insurance coverages as Landlord may reasonably request from time to time, but not in excess of the requirements of prudent landlords or lenders for similar tenants occupying similar premises in the Puget Sound metropolitan area. Tenant's occupancy of the Premises without delivering the certificates of insurance shall not constitute a waiver of Tenant's obligations to provide the required coverages. If Tenant provides to Landlord a certificate that does not evidence the coverages required herein, or that is faulty in any respect, such shall not constitute a waiver of Tenant's obligations to provide the proper insurance

C. Waiver of Subrogation. Landlord and Tenant release and relieve the other, and waive the entire right of recovery for loss or damage to property located within or constituting a part or all of the Premises, the Building or the Property to the extent that the loss or damage is actually covered (and claim amount recovered) by commercial insurance carried by either party and in force at the time of such loss or damage. This waiver applies whether or not the loss is due to the negligent acts or omissions of Landlord or Tenant, or their respective officers, directors, employees, agents, contractors, or invitees. Each of Landlord and Tenant shall have their respective property insurers endorse the applicable insurance policies to reflect the foregoing waiver of claims, provided, however, that the endorsement shall not be required if the applicable policy of insurance permits the named insured to waive rights of subrogation on a blanket basis, in which case the blanket waiver shall be acceptable.

SECTION 12: CASUALTY DAMAGE

In the event the Building or Premises shall be destroyed or rendered untenantable, either wholly or in part, by fire or other casualty, Landlord may, at its option, restore the Building or Premises to as near their previous condition as is reasonably possible and in the meantime the Rent shall be abated in the same proportion as the untenantable portion of the Premises bears to the whole thereof, provided, such abatement (i) shall apply only to the extent the Premises are untenantable for the purposes permitted under this Lease and not used by Tenant as a result thereof, and (ii) shall not apply if Tenant or any other occupant of the Premises or any of their agents, employees, invitees, transferees or contractors caused the damage. Unless Landlord, within sixty (60) days after the happening of any such casualty, shall notify Tenant of its election to so restore, this Lease shall thereupon terminate and end, provided, if in Landlord's estimation the Premises cannot be restored within one hundred twenty (120) days following such destruction, Landlord shall notify Tenant and Tenant may terminate this Lease (regardless of Landlord's intent to restore) by delivery of notice to Landlord within thirty (30) days of Landlord's notice. Such restoration by Landlord shall not include replacement of furniture, equipment or other items that do not become part of the Building or any improvements to the Premises in excess of those provided for in the allowance for building standard items. Tenant agrees that the abatement of Rent as provided above shall be Tenant's sole and exclusive recourse in the event of such damage, and Tenant waives any other rights Tenant may have under applicable Law to perform repairs or terminate the Lease by reason of damage to the Building or Premises.

SECTION 13: CONDEMNATION

If at least fifty percent (50%) of the rentable area of the Premises shall be taken by power of eminent domain or condemned by a competent authority or by conveyance in lieu thereof for public or quasi-public use ("Condemnation"), including any temporary taking for a period of one year or longer, this Lease shall terminate on the date possession for such use is so taken. If: (i) less than fifty percent (50%) of the Premises is taken, but the taking includes or affects a material portion of the Building or Property, or the economical operation thereof, (ii) less than fifty percent (50%) of the Premises are taken and in the reasonable judgment of Landlord the remaining Premises are not usable for the business of Tenant, or (iii) the taking is temporary but will be in effect for more than thirty (30) days, then in either such event, Landlord may elect to terminate this Lease upon at least thirty (30) days' prior notice to Tenant. The parties further agree that: (a) if this Lease is terminated, all Rent shall be apportioned as of the date of such termination or the date of such taking, whichever shall first occur, (b) if the taking is temporary, Rent shall not be abated for the period of the taking, but Tenant may seek a condemnation award therefor (and the Term shall not be extended thereby), and (c) if this Lease is not terminated but any part of the Premises is permanently taken, the Rent shall be proportionately abated based on the square footage of the Premises so taken. Landlord shall be entitled to receive the entire award or payment in connection with such Condemnation and Tenant hereby assigns to Landlord any interest therein for the value of Tenant's unexpired leasehold estate or any other claim and waives any right to participate therein, and Tenant shall make no claim against Landlord for termination of the leasehold interest or interference with Tenant's business. Tenant, however, shall have the right to claim damages from the condemning authority for a temporary taking of the leasehold as described above, for moving expenses and any taking of Tenant's personal property and for the interruption to Tenant's business, but only if such damages are awarded separately in the eminent domain proceeding and not as part or in diminution of the damages recovered by Landlord.

SECTION 14: ASSIGNMENT AND SUBLETTING

A. Consent Required. Tenant shall not, without the prior written consent of Landlord, assign this Lease or any interest therein, or sublet the Premises or any part thereof, or permit the use of the Premises by any party other than Tenant or otherwise transfer this Lease (collectively "Transfer"). Such consent shall be entirely discretionary with Landlord, except as otherwise provided in this Section 14. Consent to one such Transfer shall not destroy or waive this provision, and all subsequent Transfers shall likewise be made only upon obtaining prior written consent of Landlord. Subtenants or assignees shall become directly liable to Landlord for all obligations of Tenant hereunder, without relieving Tenant of any liability.

B. Transfers. If Tenant is a corporation, then any Transfer of this Lease by merger, consolidation or liquidation, or any change in the ownership of, or power to vote, the majority of its outstanding voting stock, shall constitute an assignment for the purpose of this Section 14. If Tenant is a partnership or limited liability company, any Transfer of this Lease by merger, consolidation, liquidation or dissolution, or any change in the ownership of a majority of the partnership or membership interests, shall constitute an assignment for the purposes of this Section 14. An assignment forbidden within the meaning of this Section includes without limitation one or more sales or Transfers, by operation of law or otherwise, or creation of new stock, by which an aggregate of more than fifty percent (50%) of Tenant's stock shall be vested in a party or parties who are nonstockholders as of the date hereof. This Section 14(B) shall not apply if Tenant's stock is listed on a recognized security exchange or if at least eighty percent (80%) of its stock is owned by a corporation whose stock is listed on a recognized security exchange.

C. Recapture. If Tenant at any time desires to Transfer this Lease or any part thereof, it shall first notify Landlord in writing of its desire to do so, and offer Landlord the right to recapture, at the per square foot rental for the space then applicable pursuant to this Lease or the rental which Tenant proposed to obtain whichever is lower, for all or any part of the Premises which Tenant desires to assign or sublet. Tenant's notice to Landlord shall specify (i) the name and business of the proposed assignee or sublessee, (ii) the amount and location of this space affected, (iii) the proposed effective date and duration of the subletting or assignment, and (iv) the proposed rental to be paid to Tenant by such sublessee or assignee. Landlord, upon receipt of such notice, shall have the option, to be exercised within sixty (60) days from the date of the receipt of such notice, to require Tenant to execute an assignment to Landlord of this Lease (if Tenant desires to assign this Lease) or a sublease to Landlord of the Premises or such portion thereof as Tenant desires to sublet with the right of Landlord to sublease to others, or anyone designated by Landlord. If Landlord exercises such option and such assignment or sublease is at the rental specified in this Lease, Tenant shall be released of all further liability hereunder, from and after the effective date of such assignment or sublease, with respect to that portion of the Premises included therein. If Landlord does not exercise such option within such time, Tenant may thereafter assign this Lease or sublet the premises involved, provided Landlord consents thereto, but at a rental not less than offered to Landlord in the notice and not later than ninety (90) days after delivery of the aforesaid notice unless a further notice is given. In the event Landlord does not exercise its right to terminate this Lease or to sublet a portion of the Premises from Tenant and Landlord has granted its written consent, Tenant may assign this Lease or sublet all or a portion of the Premises in accordance with Landlord's consent. Any Rent accruing to Tenant as a result of such assignment or sublease which is in excess of the Rent then being paid by Tenant, or in excess of the pro rata share of Rent then being paid by Tenant for the portion of the Premises being sublet, shall be paid by Tenant to Landlord monthly as additional rent.

D. Costs. Whether or not Landlord consents to a proposed Transfer (or exercises its right to recapture), Tenant shall reimburse Landlord on demand for any and all costs that may be incurred by Landlord in connection with any proposed Transfer including, without limitation, the cost of investigating the acceptability of the proposed transferee and Landlord's reasonable attorneys' fees incurred in connection with each proposed Transfer.

E. Notice. Any notice or request to Landlord with respect to a proposed assignment or sublease shall contain the name of the proposed assignee or subtenant (collectively "Transferee"), the nature of the proposed Transferee's business to be conducted at the Premises, and the terms and provisions of the proposed Transfer. Tenant shall also provide Landlord with a copy of the proposed Transfer documents when available, and such financial and other information with respect to the proposed Transferee and Transfer that Landlord may reasonably require.

F. Consent. Notwithstanding the foregoing, in the event of a proposed Transfer, if Landlord does not exercise its option under Section 14(C), then Landlord will not unreasonably withhold its consent thereto if (a) Tenant is not then, nor has been, in default of this Lease (beyond any applicable cure period), (b) the proposed Transferee will continuously occupy and use the Premises for the term of the Transfer, (c) the use by the proposed Transferee will be the same as Tenant's use of the Premises, (d) the proposed Transferee is reputable and of sound financial condition, (e) the Transfer will not directly or indirectly cause Landlord to be in breach of any contractual obligation, and (f) the proposed Transferee is not an existing tenant or subtenant of any other premises located on the Property. In all other cases, Landlord may withhold consent in its sole discretion.

G. Terms; Transfer Premium. Any option(s) granted to Tenant in this Lease or any option(s) granted to Tenant in any amendments to this Lease, to the extent that said option(s) have not been exercised, shall terminate and be voided in the event this Lease is assigned, or any part of the Premises are sublet, or Tenant's interest in the Premises are otherwise Transferred, unless otherwise agreed to by Landlord. If Landlord consents to a Transfer, as a condition thereto which the parties hereby agree is reasonable, Tenant shall pay to Landlord fifty percent (50%) of any "Transfer Premium," as that term is defined in this Section 14(G), received by Tenant from such Transferee. "Transfer Premium" shall mean all rent, additional rent or other consideration payable by such Transferee in connection with the Transfer in excess of the Rent and Additional Rent payable by Tenant under this Lease during the term of the Transfer on a per rentable square foot basis if less than all of the Premises is transferred, after deducting the reasonable expenses incurred by Tenant for (i) any changes, alterations and improvements to the Premises in connection with the Transfer, (ii) any free base rent or other economic concessions reasonably provided to the Transferee, (iii) any brokerage commissions in connection with the Transfer, and (iv) actual, reasonable attorneys' fees incurred by Tenant in connection with the Transfer. "Transfer Premium" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by Transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant to Transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in connection with such Transfer. The determination of the amount of Landlord's applicable share of the Transfer Premium shall be made on a monthly basis as rent or other consideration is received by Tenant under the Transfer.

SECTION 15: PERSONAL PROPERTY, RENT AND OTHER TAXES

Tenant shall pay prior to delinquency all taxes, charges or other governmental impositions assessed against, levied upon or otherwise imposed upon or with respect to all fixtures, furnishings, personal property, systems and equipment located in or exclusively serving the Premises, and any improvements made to the Premises under or pursuant to the provisions of this Lease. Whenever possible, Tenant shall cause all such items to be assessed and billed separately from the other property of Landlord. In the event any such items shall be assessed and billed with the other property of Landlord, Tenant shall pay Landlord its share of such taxes, charges or other governmental impositions within ten (10) days after Landlord delivers a statement and a copy of the assessment or other documentation showing the amount of impositions applicable to Tenant's property. Tenant shall pay any rent tax, sales tax, service tax, transfer tax, value added tax, or any other applicable tax on the Rent, utilities or services herein, the privilege of renting, using or occupying the Premises, or collecting Rent therefrom, or otherwise respecting this Lease or any other document entered in connection herewith.

SECTION 16: TENANT'S DEFAULT; LANDLORD'S REMEDIES

A. Default. The occurrence of any one or more of the following events shall constitute a "Default" by Tenant and shall give rise to Landlord's remedies set forth in Section 16(B) below: (i) failure to make when due any payment of Rent, *provided, however*, that Tenant shall not be in default solely due to such failure so long as (a) no more than one (1) such failure occurs during any calendar year, and (b) any such failure is cured within three (3) business days after notice from Landlord; (ii) failure to observe or perform any term or condition of this Lease other than the payment of Rent (or the other matters expressly described herein), unless such failure is cured within any period of time following notice expressly provided with respect thereto in other Sections hereof, or otherwise within a reasonable time, but in no event more than thirty (30) days following notice from Landlord (provided, if the nature of Tenant's failure is such that more time is reasonably required in order to cure, Tenant shall not be in Default if Tenant commences to cure promptly within such period and thereafter diligently pursues its completion); (iii) failure to cure immediately upon notice thereof any condition which is hazardous, interferes with another tenant or the operation or leasing of the Property, or may cause the imposition of a fine, penalty or other remedy on Landlord or its agents or affiliates; (iv) abandonment and vacation of the Premises (failure to occupy and operate the Premises for ten (10) consecutive days while in monetary default under this Lease shall conclusively be deemed an abandonment and vacation); or (v) Tenant, or any guarantor of this Lease ("Guarantor"), filing by or for reorganization or arrangement under any Law relating to bankruptcy or insolvency (unless, in the case of a petition filed against Tenant or such Guarantor, the same is dismissed within thirty (30) days); (b) Tenant's or any Guarantor's insolvency or failure, or admission of an inability, to pay debts as they mature, or (c) a violation by Tenant or any affiliate of Tenant under any other lease or agreement with Landlord or any affiliate thereof which is not cured within the time permitted for cure thereunder. Additionally, if Tenant violates the same term or condition of this Lease on two (2) occasions during any twelve (12) month period, Landlord shall have the right to exercise all remedies for any violations of the same term or condition during the next twelve (12) months without providing further notice or an opportunity to cure. The notice and cure periods provided herein are intended to satisfy any and all notice requirements imposed by Law on Landlord and are in lieu of, and not in addition to, any notice and cure periods provided by Law; provided, Landlord may elect to comply with such notice and cure periods provided by Law. In the event of Tenant's default, and in addition to any other amounts or remedies that Landlord may be entitled to, Landlord shall be entitled to recover from Tenant, Landlord's costs and reasonable attorneys' fees incurred in enforcing this Lease or otherwise arising from Tenant's default.

B. Remedies. If a Default occurs, Landlord shall have the rights and remedies hereinafter set forth to the extent permitted by Law, which shall be distinct, separate and cumulative with and in addition to any other right or remedy allowed under any Law or other provision of this Lease:

1. Landlord may terminate Tenant's right to possession without termination of this Lease, or Landlord may terminate this Lease and Tenant's right to possession, at any time following a Default; provided, no act of Landlord other than giving notice to Tenant with express statement of termination shall terminate this Lease or Tenant's right to possession. Acts of maintenance, efforts to relet the premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of tenant's right to possession. Upon termination of Tenant's right to possession, Landlord shall have the right to reenter the Premises and recover from Tenant in addition to any other monies provided herein or at Law: (a) the Worth of the unpaid Rent that had been earned by Landlord at the time of termination of Tenant's right to possession; (b) the Worth of the amount of the unpaid Rent that would have been earned after the date of termination of Tenant's right to possession through the expiration of the Lease Term; and (c) all other expenses incurred by Landlord on account of Tenant's Default, including without limitation any Costs of Reletting (defined below) and Landlord's attorneys' fees and collection costs. The "Worth" as used for item (a) above is to be computed by allowing interest at the rate of eighteen percent (18%) to accrue on all such unpaid Rent (or such lesser rate required by Law, if any). The Worth as used for item (b) above is to be computed by discounting the amount of Rent at the discount rate of the Federal Reserve Bank of San Francisco at the time of termination of Tenant's right of possession.

2. In the event Landlord has made improvements to the Premises for the use and occupancy of Tenant, in addition to all other damages and rents to which Landlord shall be entitled on account of Tenant's Default, Landlord shall also be entitled to recover from Tenant a sum equal to: (a) the unamortized cost to Landlord of the basic building standard Tenant improvement costs, said sum being computed by applying the percentage which the unexpired portion of the Lease Term bears to the total scheduled Lease Term with interest at ten percent (10%) per annum, plus (b) all costs to Landlord of non-building standard, custom or special Tenant improvements (above basic building standard improvements) with no adjustment for the unexpired portion of the scheduled Lease Term.

3. In the event of any such reentry by Landlord, Landlord may, at Landlord's option, require Tenant to remove from the Premises any of Tenant's property located thereon. If Tenant fails to do so, Landlord shall not be responsible for the care or safekeeping thereof and may remove any of the same from the Premises and place the same elsewhere in the Building or in storage in a public warehouse at the cost, expense and risk of Tenant with authority to the warehouseman to sell the same in the event that Tenant shall fail to pay the cost of transportation and storage, all in accordance with the rules and regulations applicable to the operation of a public warehouseman's business. In any and all such cases of reentry Landlord may make any repairs in, to or upon the Premises which may be necessary, desirable or convenient, and Tenant hereby waives any and all claims for damages which may be caused or occasioned by such reentry or to any property in or about the Premises or any part thereof.

4. Landlord may bring suits for amounts owed by Tenant hereunder or any portions thereof, as the same accrue or after the same have accrued, and no suit or recovery of any portion due hereunder shall be deemed a waiver of Landlord's right to collect all amounts to which Landlord is entitled hereunder, nor shall the same serve as any defense to any subsequent suit brought for any amount not therefor reduced to judgment. Landlord may pursue one or more remedies against Tenant and need not make an election of remedies. All rent and other consideration paid by any replacement tenants shall be applied at Landlord's option: (i) first, to the Costs of Reletting (defined below), (ii) second, to the payment of all costs and attorneys' fees of enforcing this Lease against Tenant or any Guarantor, (iii) third, to the payment of all interest and service charges accruing hereunder, (iv) fourth, to the payment of Rent theretofore accrued, and (v) with the residue, if any, to be held by Landlord and applied to the payment of Rent and other obligations of Tenant as the same become due (and with any remaining residue to be retained by Landlord). "Costs of Reletting" shall include without limitation, all costs and expenses incurred by Landlord for any repairs, improvements or other matters necessary to prepare the Premises for another tenant, brokerage commissions, advertising costs, attorneys' fees, any economic incentives given to enter leases with replacement tenants. With respect to reletting the Premises, Landlord shall only be required to use reasonable efforts that do not exceed such efforts Landlord generally uses to lease other space in the Building, Landlord may continue to lease other portions of the Building or other projects owned or managed by Landlord in the same vicinity before reletting all or a portion of the Premises, and Landlord shall not be required to relet at rental rates less than Landlord's then-existing rates for new leases or terms less favorable to Landlord than those contained herein. The times set forth herein for the curing of Defaults by Tenant are of the essence in this Lease.

5. All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of Rent, except to the extent, if any, otherwise expressly provided herein. If Tenant shall fail to perform any obligation under this Lease, and such failure shall continue in excess of the time allowed under Section 16(A) above, unless a specific time period is otherwise stated in this Lease, Landlord may, but shall not be obligated to, make any such payment or perform any such act on Tenant's part without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder. Except as may be specifically provided to the contrary in this Lease, and in addition to any other damages recoverable by Landlord hereunder, Tenant shall pay to Landlord, upon delivery by Landlord to Tenant of statements therefor, all sums necessary to reimburse Landlord or pay to Landlord its expenditures actually made and obligations actually incurred in connection with remedying Tenant defaults pursuant to this Section 16(B)(5).

SECTION 17: SUBORDINATION, ATTORNMENT AND LENDER PROTECTION

This Lease is subject and subordinate to all Mortgages now or hereafter placed upon the Property, Building, Premises or any interest of Landlord therein, and all other encumbrances, and matters of public record applicable to the Property, Building or Premises. Whether before or after any foreclosure or power of sale proceedings are initiated or completed by any Lender or a deed in lieu is granted (or any ground lease is terminated), Tenant agrees upon written request of any such Lender or any purchaser at such sale, to attorn and pay Rent to such party, and recognize such party as Landlord (provided such Lender or purchaser shall agree not to disturb Tenant's occupancy so long as Tenant does not Default hereunder, on a form customarily used by, or otherwise reasonably acceptable to, such party). However, in the event of attornment, no Lender shall be: (i) liable for any act or omission of Landlord, or subject to any offsets or defenses which Tenant might have against Landlord (arising prior to such Lender becoming Landlord under such attornment), (ii) liable for any security deposit or bound by any prepaid Rent not actually received by such Lender, or (iii) bound by any modification of this Lease not consented to by such Lender. Any Lender may elect to make this Lease prior to the lien of its Mortgage by written notice to Tenant, and if the Lender of any prior Mortgage shall require, this Lease shall be prior to any subordinate Mortgage; such elections shall be effective upon written notice to Tenant, or shall be effective as of such earlier or later date set forth in such notice. Tenant agrees to give any Lender by certified mail, return receipt requested, a copy of any notice of default served by Tenant upon Landlord, provided that prior to such notice Tenant has been notified in writing (by way of service on Tenant of a copy of an assignment of leases, or otherwise) of the address of such Lender. Tenant further agrees that if Landlord shall have failed to cure such default within the time permitted Landlord for cure under this Lease, any such Lender whose address has been provided to Tenant shall have an additional period of thirty (30) days in which to cure (or such additional time as may be required due to causes beyond such Lender's control, including time to obtain possession of the Property by appointment of receiver, power of sale or judicial action). Should any current or prospective Lender require a modification or modifications to this Lease which will not cause an increased cost or otherwise materially and adversely change the rights and obligations of Tenant hereunder, Tenant agrees that this Lease shall be so modified. Except as expressly provided to the contrary herein, the provisions of this Section shall be self-operative; however Tenant shall execute and deliver, within ten (10) days after requested, such documentation as Landlord or any Lender may request from time to time, whether prior to or after a foreclosure or power of sale proceeding is initiated or completed, a deed in lieu is delivered, or a ground lease is terminated, in order to further confirm or effectuate the matters set forth in this Section in recordable form (and Tenant hereby authorizes Landlord acting in good faith to execute any such documentation as Tenant's agent and attorney-in-fact). Tenant hereby waives the provisions of any Law (now or hereafter adopted) which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease or Tenant's obligations hereunder if foreclosure or power of sale proceedings are initiated, prosecuted or completed.

SECTION 18: ESTOPPEL CERTIFICATES

Tenant shall from time to time, within five (5) days after written request from Landlord, execute, acknowledge and deliver a statement certifying: (i) that this Lease is unmodified and in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease as so modified, is in full force and effect (or specifying the ground for claiming that this Lease is not in force and effect), (ii) the dates to which the Rent has been paid, and the amount of any Security Deposit, (iii) that Tenant is in possession of the Premises, and paying Rent on a current basis with no offsets, defenses or claims, or specifying the same if any are claimed, (iv) that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord or Tenant which are pertinent to the request, or specifying the same if any are claimed, and (v) certifying such other matters, and including such current financial statements, as Landlord may reasonably request, or as may be requested by Landlord's current or prospective Lenders, insurance carriers, auditors, and prospective purchasers (and including a comparable certification statement from any subtenant respecting its sublease). Any such statement may be relied upon by any such parties. If Tenant shall fail to execute and return such statement within the time required herein, Tenant shall be deemed to have agreed with the matters set forth therein, and Landlord acting in good faith shall be authorized as Tenant's agent and attorney-in-fact to execute such statement on behalf of Tenant (which shall not be in limitation of Landlord's other remedies).

SECTION 19: RIGHTS RESERVED BY LANDLORD

Except to the extent expressly limited herein, Landlord reserves full rights to control the Property (which rights may be exercised without subjecting Landlord to claims for constructive eviction, abatement of Rent, damages or other claims of any kind), including more particularly, but without limitation, the following rights:

A. General Matters. To: (i) change the name or street address of the Building or Property or designation of the Premises, (ii) install and maintain signs on the exterior and interior of the Building or Property, and grant any other person the right to do so, (iii) retain at all times, and use in appropriate instances, keys to all doors within and into the Premises, (iv) grant to any person the right to conduct any business or render any service at the Property, whether or not the same are similar to the use permitted Tenant by this Lease, (v) grant any person the right to use separate security personnel and systems respecting access to their premises, (vi) have access for Landlord and other tenants of the Building to any mail chutes located on the Premises according to the rules of the United States Postal Service (and to install or remove such chutes), and (vii) in case of fire, invasion, insurrection, riot, civil disorder, emergency or other dangerous condition, or threat thereof: (a) limit or prevent access to the Building or Property or Premises, (b) shut down elevator service, (c) activate elevator emergency controls, and (d) otherwise take such action or preventative measures deemed necessary by Landlord for the safety of tenants of the Building or Property or the protection of the Building or Property and other property located thereon or therein (but this provision shall impose no duty on Landlord to take such actions, and no liability for actions taken in good faith).

B. Access to Premises. To enter the Premises in order to: (i) inspect, (ii) supply cleaning service or other services to be provided Tenant hereunder, (iii) show the Premises to current and prospective Lenders, insurers, purchasers, tenants, brokers and governmental authorities, (iv) decorate, remodel or alter the Premises if Tenant shall abandon the Premises at any time, or shall vacate the same during the last one hundred twenty (120) days of the Term (without thereby terminating this Lease), and (v) perform any work or take any other actions under Section 19(C) below, or exercise other rights of Landlord under this Lease or applicable Laws. However, Landlord shall: (a) provide reasonable advance written or oral notice to Tenant's on site manager or other appropriate person for matters which will involve a significant disruption to Tenant's business (except in emergencies), (b) take reasonable steps to minimize any significant disruption to Tenant's business, and following completion of any work, return Tenant's leasehold improvements, fixtures, property and equipment to the original locations and condition to the fullest extent reasonably possible, and (c) take reasonable steps to avoid materially changing the configuration or reducing the square footage of the Premises, unless required by Laws or other causes beyond Landlord's reasonable control (and in the event of any permanent material reduction, the Rent and other rights and obligations of the parties based on the square footage of the Premises shall be proportionately reduced). Tenant shall not place partitions, furniture or other obstructions in the Premises which may prevent or impair Landlord's access to the Systems and Equipment for the Property or the systems and equipment for the Premises. If Tenant requests that any such access occur before or after Landlord's regular business hours and Landlord approves, Tenant shall pay all overtime and other additional costs in connection therewith.

C. Changes To The Property. To: (i) paint and decorate, (ii) perform repairs or maintenance, and (iii) make replacements, restorations, renovations, alterations, additions and improvements, structural or otherwise (including freon retrofit work), in and to the Building or Property or any part thereof, including any adjacent building, structure, facility, land, street or alley, or change the uses thereof (including changes, reductions or additions of corridors, entrances, doors, lobbies, parking facilities and other areas, structural support columns and shear walls, elevators, stairs, escalators, mezzanines, solar tint windows or film, kiosks, planters, sculptures, displays, and other amenities and features therein, and changes relating to the connection with or entrance into or use of the Building or Property or any other adjoining or adjacent building or buildings, now existing or hereafter constructed). In connection with such matters, Landlord may among other things erect scaffolding, barricades and other structures, open ceilings, close entry ways, restrooms, elevators, stairways, corridors, parking and other areas and facilities, and take such other actions as Landlord deems appropriate. However, Landlord shall: (a) take reasonable steps to minimize or avoid any denial of access to the Premises except when necessary on a temporary basis, and (b) in connection with entering the Premises shall comply with Section 19(B) above.

D. New Premises. To substitute for the Premises other premises (herein referred to as the "new premises") in the Building, provided: (i) the new premises shall be similar to the Premises in size (up to 10% larger or smaller with the Rent and any other rights and obligations of the parties based on the square footage of the Premises adjusted proportionately to reflect any decrease), (ii) Landlord shall provide the new premises in a condition substantially comparable to the Premises at the time of the substitution (and Tenant shall diligently cooperate in the preparation or approval of any plans or specifications for the new premises as requested by Landlord or Landlord's representatives), (iii) the parties shall execute an appropriate amendment to the Lease confirming the change within thirty (30) days after Landlord requests, and (iv) if Tenant shall already have taken possession of the Premises: (a) Landlord shall pay the direct, out of pocket, reasonable expenses of Tenant in moving from the Premises to the new premises, and (b) Landlord shall give Tenant at least thirty (30) days' notice before making such change, and such move shall be made during evenings, weekends, or otherwise so as to incur the least inconvenience to Tenant. Tenant shall surrender and vacate the Premises on the date required in Landlord's notice of substitution, in the condition and as required under Section 22, and any failure to do so shall be subject to Section 23.

E. Redevelopment Rights and Construction Activities; Landlord Termination Right. Landlord reserves all rights to alter and/or redevelop the Building and the Property, including the Premises, and to perform construction activities in connection therewith (collectively, "Construction Activities"). Construction Activities may include (i) painting and decoration, (ii) repairs and maintenance, (iii) replacements, restorations, renovations, alterations, additions (including adding additional floors to the Building) and improvements, structural and otherwise, in and to the Building or Property or any part thereof, including any adjacent building, structure, facility, land, street or alley, and (iv) any changes in the uses thereof (including changes, reductions or additions of corridors, entrances, doors, lobbies, parking facilities and other areas, structural support columns and shear walls, elevators, stairs, escalators, mezzanines, solar tint windows or film, kiosks, planters, sculptures, displays, and other amenities and features therein, and changes relating to the connection with or entrance into or use of the Building or Property or any other adjoining or adjacent building or buildings, now existing or hereafter constructed). In connection with any such Construction Activities, Landlord may among other things erect scaffolding, barricades and other structures, open ceilings, close entry ways, restrooms, elevators, stairways, corridors, parking and other areas and facilities, and take such other actions as Landlord deems appropriate. Landlord shall take reasonable steps to minimize or avoid any denial of access to the Premises or interference with Tenant's use of the Premises except when necessary on a temporary basis; provided, however, that if Landlord determines in its reasonable judgment that it is necessary or expedient to do so, Landlord shall have the right, at its option, to terminate this Lease in connection with any Construction Activities, by giving Tenant written notice to such effect (the "Termination Notice") not less than twelve (12) months prior to the termination date set forth in the Termination Notice (the "Termination Date"). On the Termination Date (i) this Lease shall be fully and finally terminated; (ii) Tenant shall vacate the Premises and surrender possession of the Premises to Landlord in accordance with the provisions of the Lease, and (iii) Landlord and Tenant shall be fully and unconditionally relieved and released of and from their respective obligations and liabilities under or connected with the provisions of this Lease accruing or arising after the Termination Date; provided, however, that any indemnity or similar provisions of this Lease and any obligations on the part of Landlord or Tenant to reimburse the other party for overpayments or underpayments shall survive the termination of the Lease and remain fully effective as to any and all demands, claims, causes of action, or reimbursement obligations that accrued or arose on or before the Termination Date. If Landlord elects to terminate this Lease in accordance with this Section, Landlord shall work in good faith with Tenant to identify potential alternative spaces for Tenant to lease within the portfolio of Seattle office buildings owned by Landlord or its affiliates.

SECTION 20: LANDLORD'S DEFAULT; REMEDIES

If Landlord shall fail to perform any obligation under this Lease required to be performed by Landlord, Landlord shall not be deemed to be in default hereunder nor subject to any claims for damages of any kind, unless such failure shall have continued for a period of thirty (30) days after notice thereof by Tenant (provided, if the nature of Landlord's failure is such that more time is reasonably required in order to cure, Landlord shall not be in default if Landlord commences to cure within such period and thereafter diligently seeks to cure such failure to completion). If Landlord shall default and failure to cure as provided herein, Tenant shall have such rights and remedies as may be available to Tenant under applicable Laws, subject to the other provisions of this Lease; provided, Tenant shall have no right of self-help to perform repairs or any other obligation of Landlord, and shall have no right to withhold, set-off, or abate Rent, or terminate this Lease, and Tenant hereby expressly waives the benefit of any Law to the contrary.

SECTION 21: RELEASE AND INDEMNITY

A. Tenant's Indemnification of Landlord. Tenant shall indemnify, defend (using legal counsel reasonably acceptable to Landlord) and save Landlord harmless from all claims, suits, losses, damages, fines, penalties, liabilities and expenses (including Landlord's personnel and overhead costs and reasonable attorneys' fees and other costs incurred in connection with claims (collectively, "Claims"), regardless of whether such Claims involve litigation) resulting from any actual or alleged injury (including death) of any person or from any actual or alleged loss of or damage to any property arising out of or in connection with (i) Tenant's occupation, use or improvement of the Premises, or that of its employees, agents or contractors, (ii) Tenant's breach of its obligations hereunder or (iii) any act or omission of Tenant or any subtenant, licensee, assignee or concessionaire of Tenant, or of any officer, agent, employee, guest or invitee of Tenant, or of any such entity in or about the Premises. Notwithstanding the foregoing, in the event any Claims are caused by the joint or concurrent negligence of Landlord or Tenant, Tenant's indemnification obligation with respect to Landlord shall be limited to the extent of the negligence of Tenant, and in no event shall Tenant have any obligation to indemnify Landlord against Claims arising out of the sole negligence of Landlord. **FOR THE SOLE PURPOSE OF GIVING FULL FORCE AND EFFECT TO THE INDEMNIFICATION OBLIGATIONS UNDER THIS LEASE AND NOT FOR THE BENEFIT OF ANY EMPLOYEES OF TENANT OR ANY THIRD PARTIES UNRELATED TO THE PARTIES INDEMNIFIED UNDER THIS LEASE, TENANT SPECIFICALLY AND EXPRESSLY WAIVES ANY IMMUNITY THAT MAY BE GRANTED IT UNDER THE WASHINGTON STATE INDUSTRIAL INSURANCE ACT, TITLE 51 RCW.** This indemnity with respect to acts or omissions during the term of this Lease shall survive termination or expiration of this Lease. Tenant shall promptly notify Landlord of casualties or accidents occurring in or about the Premises. **LANDLORD AND TENANT ACKNOWLEDGE THAT THE INDEMNIFICATION PROVISIONS OF SECTION 29 AND THIS SECTION 21 WERE SPECIFICALLY NEGOTIATED AND AGREED UPON BY THEM.**

B. Release. Tenant hereby fully and completely waives and releases all claims against Landlord for any losses or other damages sustained by Tenant or any person claiming through Tenant resulting from any accident or occurrence in or upon the Premises, including but not limited to: any defect in or failure of Building equipment; any failure to make repairs; any defect, failure, surge in, or interruption of project facilities or services; any defect in or failure of Common Areas; broken glass; water leakage; the collapse of any Building component; any claim or damage resulting from Landlord's repair, maintenance or improvements to any portion of the Building or Property; or any act, omission or negligence of co-tenants, licensees or any other persons or occupants of the Building; provided only, that the release contained in this Section 21(B) shall not apply to claims for actual damage to persons or property (excluding consequential damages such as lost profits) resulting directly and solely from Landlord's gross negligence or willful misconduct or from Landlord's breach of its express obligations under this Lease which Landlord has not cured within a reasonable time after receipt of written notice of such breach from Tenant.

C. Definitions. As used in any Section of this Lease establishing indemnity or release of Landlord, "Landlord" shall include Landlord, its property manager if any, and their respective managers, members, partners, officers, agents, employees and contractors, and "Tenant" shall include Tenant and any person or entity claiming through Tenant.

SECTION 22: RETURN OF POSSESSION

At the expiration or earlier termination of this Lease or Tenant's right of possession, Tenant shall vacate and surrender possession of the entire Premises in good, neat and clean order and well-maintained condition, ordinary wear and tear excepted, shall surrender all keys and key cards, and any parking transmitters, stickers or cards, to Landlord, and shall remove all personal property and office trade fixtures that may be readily removed without damage to the Premises or Property. All improvements, fixtures and other items installed by Tenant or Landlord under or with respect to this Lease, shall be the property of Tenant during the Term of this Lease, but at the expiration or earlier termination of this Lease all such improvements, fixtures and other items shall become Landlord's property, and shall remain upon the Premises (unless Landlord elects otherwise), all without compensation, allowance or credit to Tenant. If prior to such termination or within three (3) months thereafter Landlord so directs by notice, and subject to the terms of Section 10(A) of this Lease, Tenant shall promptly remove such of the foregoing items as are designated in such notice and restore the Premises to the condition prior to the installation of such items in a good and workmanlike manner. If Tenant shall fail to perform any repairs or restoration, or fail to remove any items from the Premises required hereunder, Landlord may do so and Tenant shall pay Landlord's charges therefor upon demand. All property removed from the Premises by Landlord pursuant to any provisions of this Lease or any Law may be handled or stored by Landlord at Tenant's expense, and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. All property not removed from the Premises or retaken from storage by Tenant within thirty (30) days after expiration or earlier termination of this Lease or Tenant's right to possession, shall at Landlord's option be conclusively deemed to have been conveyed by Tenant to Landlord as if by bill of sale without payment by Landlord. Unless prohibited by applicable Law, Landlord shall have a lien against such property for the costs incurred in removing and storing the same. Tenant hereby waives any statutory notices to vacate or quit the Premises upon expiration of this Lease.

SECTION 23: HOLDING OVER

Unless Landlord expressly agrees otherwise in writing, Tenant shall pay Landlord two hundred percent (200%) of the amount of Rent then applicable prorated on a per diem basis for each day Tenant shall fail to vacate or surrender possession of the Premises or any part thereof after expiration or earlier termination of this Lease, together with all damages sustained by Landlord on account thereof. Tenant shall pay such amounts on demand, and, in the absence of demand, monthly in advance. The foregoing provisions, and Landlord's acceptance of any such amounts, shall not serve as permission for Tenant to hold over, nor serve to extend the Term (although Tenant shall remain a tenant-at-sufferance bound to comply with all provisions of this Lease). Landlord shall have the right at any time after expiration or earlier termination of this Lease, or Tenant's right to possession, to reenter and possess the Premises and remove all property and persons therefrom, and Landlord shall have such other remedies for holdover as may be available to Landlord under other provisions of this Lease or applicable Laws.

SECTION 24: NOTICES

Except as expressly provided to the contrary in this Lease, every notice or other communication to be given by either party to the other with respect hereto or to the Premises, Building or Property, shall be in writing and shall not be effective for any purpose unless the same shall be served personally, or by national air courier service, or United States certified mail, return receipt requested, postage prepaid, to the parties at the addresses set forth in Section 1, or such other address or addresses as Tenant or Landlord may from time to time designate by notice given as above provided. Every notice or other communication hereunder shall be deemed to have been given as of the third business day following the date of such mailing (or as of any earlier date evidenced by a receipt from such national air courier service or the United States Postal Service) or immediately if personally delivered. Notices not sent in accordance with the foregoing shall be of no force or effect until received by the foregoing parties at such addresses required herein.

SECTION 25: REAL ESTATE BROKERS

Tenant represents that Tenant has dealt only with the broker, if any, designated in Section 1 (whose commission, if any, shall be paid by Landlord pursuant to separate agreement) as broker, agent or finder in connection with this Lease, and agrees to indemnify and hold Landlord harmless from all damages, judgments, liabilities and expenses (including reasonable attorneys' fees) arising from any claims or demands of any other broker, agent or finder with whom Tenant has dealt for any commission or fee alleged to be due in connection with its participation in the procurement of Tenant or the negotiation with Tenant of this Lease. Landlord and Tenant recognize that it is possible that they may hereafter make additional agreements regarding further extension or renewal of this Lease or a new lease or leases for all or one or more parts of the Premises or other space in the Building (or other portions of the Property or other buildings managed by Landlord) for a term or terms commencing after the Commencement Date of this Lease. It is also possible that Landlord and Tenant may hereafter modify this Lease to add additional space or to substitute other space for all or a portion of the Premises. In the event any such additional agreements, modifications to this Lease, or new leases are made, Landlord shall have no obligation to pay any commission or other compensation to any broker or other party engaged by Tenant (including the brokers designated in Section 1) with respect to negotiating or representing Tenant in such matters, regardless of whether under the circumstances such person is or is not regarded by law as an agent of Landlord, and Tenant shall indemnify and hold Landlord harmless from any claim for such compensation. Nothing in this Section 25 shall be construed to require or otherwise obligate Landlord to consider or make any of the above-described additional agreements, modifications to this Lease, or new lease.

SECTION 26: NO WAIVER

No provision of this Lease will be deemed waived by either party unless expressly waived in writing and signed by the waiving party. No waiver shall be implied by delay or any other act or omission of either party. No waiver by either party of any provision of this Lease shall be deemed a waiver of such provision with respect to any subsequent matter relating to such provision, and Landlord's consent or approval respecting any action by Tenant shall not constitute a waiver of the requirement for obtaining Landlord's consent or approval respecting any subsequent action. Acceptance of Rent by Landlord directly or through any agent or lock-box arrangement shall not constitute a waiver of any breach by Tenant of any term or provision of this Lease (and Landlord reserves the right to return or refund any untimely payments if necessary to preserve Landlord's remedies). No acceptance of a lesser amount of Rent shall be deemed a waiver of Landlord's right to receive the full amount due, nor shall any endorsement or statement on any check or payment or any letter accompanying such check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the full amount due. The acceptance of Rent or of the performance of any other term or provision from, or providing directory listings or services for, any person or entity other than Tenant shall not constitute a waiver of Landlord's right to approve any Transfer. No delivery to, or acceptance by, Landlord or its agents or employees of keys, nor any other act or omission of Tenant or Landlord or their agents or employees, shall be deemed a surrender, or acceptance of a surrender, of the Premises or a termination of this Lease, unless stated expressly in writing by Landlord.

SECTION 27: SAFETY AND SECURITY DEVICES, SERVICES AND PROGRAMS

The parties acknowledge that safety and security devices, services and programs provided by Landlord, if any, while intended to deter crime and ensure safety, may not in given instances prevent theft or other criminal acts, or ensure safety of persons or property. The risk that any safety or security device, service or program may not be effective, or may malfunction, or be circumvented by a criminal, is assumed by Tenant with respect to Tenant's property and interests, and Tenant shall obtain insurance coverage to the extent Tenant desires protection against such criminal acts and other losses. Tenant agrees to cooperate in any reasonable safety or security program developed by Landlord or required by Law.

SECTION 28: TELECOMMUNICATION LINES AND EQUIPMENT

A. Telecommunication Lines. No telecommunication or computer lines (collectively, "Lines") shall be installed within or without the Premises without Landlord's prior consent in accordance with Section 10. Landlord disclaims any representations, warranties or understandings concerning Landlord's Building computer systems, or the capacity, design or suitability of Landlord's riser Lines, Landlord's main distribution frame ("MDF") or related equipment. If there is, or will be, more than one tenant on any floor, at any time, Landlord may allocate, and periodically reallocate, connections to the terminal block based on the proportion of square feet each tenant occupies on such floor, or the type of business operations or requirements of such tenants, in Landlord's reasonable discretion. Landlord may arrange for an independent contractor to review Tenant's requests for approval to install any telecommunication or computer lines, monitor or supervise Tenant's installation, connection and disconnection of any such lines, and provide other such services, or Landlord may provide the same. In each case, all such work shall be performed in accordance with Section 10 and the additional requirements set forth below: (i) an acceptable number of spare Lines and space for additional Lines shall be maintained for existing and future occupants of the Project, as determined in Landlord's reasonable opinion; (ii) the Lines (including riser cables) shall be appropriately insulated to prevent excessive electromagnetic fields or radiation, shall be surrounded by a protective conduit reasonably acceptable to Landlord, and shall be identified in accordance with the "Identification Requirements," as that term is set forth below; (iii) any new or existing Lines servicing the Premises shall comply with all applicable governmental laws and regulations; (iv) as a condition to permitting the installation of new Lines, Landlord may require that Tenant remove existing Lines located in or serving the Premises and repair any damage in connection with such removal; (v) Tenant shall pay all costs in connection therewith; and (vi) all Lines shall be clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, suite number, telephone number and the name of the person to contact in the case of an emergency (A) every four feet (4') outside the Premises (specifically including, but not limited to, the electrical room risers and other Common Areas), and (B) at the Lines' termination point(s) (collectively, "Identification Requirements"). At the expiration or earlier termination of this Lease, and at Landlord's request, Tenant at its cost shall remove all Lines or other computer or telecommunication systems installed by or for Tenant and Tenant shall restore the Premises and Building to the condition existing prior to Tenant's installation.

B. Wi-Fi Network. In the event Tenant desires to install wireless intranet, Internet and communications network ("Wi-Fi Network") in the Premises for the use by Tenant and its employees, then the same shall be subject to the provisions of Section 8 and Section 15. Tenant shall use the Wi-Fi Network so as not to cause any interference to other tenants in the Building or with any other tenant's communication equipment, and not to interfere with the normal operation of the Building. Should any interference occur, Tenant shall take all necessary steps as soon as reasonably possible and no later than three (3) calendar days following such occurrence to correct such interference. If such interference continues after such three (3) day period, Tenant shall immediately cease operating such Wi-Fi Network until such interference is corrected or remedied to Landlord's satisfaction. Tenant acknowledges that Landlord has granted and/or may grant telecommunication rights to other tenants and occupants of the Building and Property and to telecommunication service providers and in no event shall Landlord be liable to Tenant for any interference of the same with such Wi-Fi Network. Landlord makes no representation that the Wi-Fi Network will be able to receive or transmit communication signals without interference or disturbance. Tenant shall (i) be solely responsible for any damage caused as a result of the Wi-Fi Network, (ii) promptly pay any tax, license or permit fees charged pursuant to any Laws in connection with the installation, maintenance or use of the Wi-Fi Network and comply with all precautions and safeguards recommended by all governmental authorities, and (iii) pay for all necessary repairs, replacements to or maintenance of the Wi-Fi Network.

C. Limitation of Liability. Unless due solely to Landlord's intentional misconduct or grossly negligent acts, Landlord shall have no liability for damages arising, and Landlord does not warrant that the Tenant's use of any telecommunication or computer lines or systems will be free, from the following (collectively called "Line Problems"): (i) any eavesdropping, wiretapping or theft of long distance access codes by unauthorized parties, (ii) any failure of the Lines to satisfy Tenant's requirements, or (iii) any capacitance, attenuation, cross talk or other problems with the Lines, any misdesignation of the Lines in the MDF room or wire closets, or any shortages, failures, variations, interruptions, disconnections, loss or damage caused by or in connection with the installation, maintenance, replacement, use or removal of any other Lines or equipment at the Building or Property by or for other tenants at the Property or Building, by any failure of the environmental conditions at or the power supply for the Building to conform to any requirements of the Lines or any other problems associated with any Lines or by any other cause. Under no circumstances shall any Line Problems be deemed an actual or constructive eviction of Tenant, render Landlord liable to Tenant for abatement of any Rent or other charges under the Lease, or relieve Tenant from performance of Tenant's obligations under the Lease as amended herein. Landlord in no event shall be liable for any loss of profits, business interruption or other consequential damage arising from any Line Problems.

SECTION 29: HAZARDOUS SUBSTANCES; DISRUPTIVE ACTIVITIES

A. Hazardous Substances.

1. Tenant shall not, without Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion, keep on or around the Premises, Building or Property, for use, disposal, treatment, generation, storage or sale, any substances designed as, or containing components designated as, a "hazardous substance," "hazardous material," hazardous waste," "regulated substance" or "toxic substance" by applicable Law (collectively referred to as "Hazardous Substances"). With respect to any such Hazardous Substances, Tenant shall: (i) comply promptly, timely and completely with all Laws for reporting, keeping and submitting manifests, and obtaining and keeping current identification numbers; (ii) submit to Landlord true and correct copies of all reports, manifests and identification numbers at the same time as they are required to be and/or are submitted to the appropriate governmental authorities; (iii) within five (5) days of Landlord's request, submit written reports to Landlord regarding Tenant's use, storage, treatment, transportation, generation, disposal or sale of Hazardous Substances and provide evidence satisfactory to Landlord of Tenant's compliance with all applicable Laws; (iv) allow Landlord or Landlord's agent or representative to come on the Premises at all times to check Tenant's compliance with all applicable Laws; (v) comply with minimum levels, standards or other performance standards or requirements which may be set forth or established for certain Hazardous Substances (if minimum standards or levels are applicable to Hazardous Substances present on the Premises, such levels or standards shall be established by an on-site inspection by the appropriate governmental authorities and shall be set forth in an addendum to this Lease); and (vi) comply with all applicable Laws regarding the proper and lawful use, sale, transportation, generation, treatment and disposal of Hazardous Substances.

2. Any and all costs incurred by Landlord and associated with Landlord's monitoring of Tenant's compliance with this Section 29, including Landlord's attorneys' fees and costs, shall be additional Rent and shall be due and payable to Landlord immediately upon demand by Landlord.

B. Cleanup Costs, Default and Indemnification.

1. Tenant shall be fully and completely liable to Landlord for any and all cleanup costs, and any and all other charges, fees, penalties (civil and criminal) imposed by any governmental authority with respect to Tenant's use, disposal, transportation, generation and/or sale of Hazardous Substances, in or about the Premises, Building or Property.

2. Tenant shall fully indemnify, defend and save Landlord and Landlord's Lender, if any, harmless from any and all of the costs, fees, penalties and charges assessed against or imposed upon Landlord (as well as Landlord's and Landlord's Lender's attorneys' fees and costs) as a result of Tenant's use, disposal, transportation, generation and/or sale of Hazardous Substances.

3. Upon Tenant's default under this Section 29, in addition to the rights and remedies set forth elsewhere in this Lease, Landlord shall be entitled to the following rights and remedies: (i) at Landlord's option, to terminate this lease immediately; and/or (ii) to recover any and all damages associated with the default, including, but not limited to cleanup costs and charges, civil and criminal penalties and fees, loss of business and sales by Landlord and other tenants of the Building or Property, any and all damages and claims asserted by third parties and Landlord's attorney's fees and costs.

C. Disruptive Activities. Tenant shall not: (1) produce, or permit to be produced, any intense glare, light or heat except within an enclosed or screened area and then only in such manner that the glare, light or heat shall not, outside the Premises, be materially different than the light or heat from other sources outside the Premises; (2) create, or permit to be created, any sound pressure level which will interfere with the quiet enjoyment of any real property outside the Premises, or which will create a nuisance or violate any Law; (3) create, or permit to be created, any floor or ground vibration that is materially discernible outside the Premises; (4) transmit, receive, or permit to be transmitted or received, any electromagnetic, microwave or other radiation which is harmful or hazardous to any person or property in or about the Premises, Building or Property; or (5) create, or permit to be created, any noxious odor that is disruptive to the business operations of any other tenant in the Building or Property.

SECTION 30: DISABILITIES ACTS

The parties acknowledge that the Americans With Disabilities Act of 1990 (42 U.S.C. § 12101 et seq.) and regulations and guidelines promulgated thereunder ("ADA"), and any similarly motivated state and local Laws, as the same may be amended and supplemented from time to time (collectively referred to herein as the "Disabilities Acts") establish requirements for business operations, accessibility and barrier removal, and that such requirements may or may not apply to the Premises, Building and Property depending on, among other things: (i) whether Tenant's business is deemed a "public accommodation" or "commercial facility", (ii) whether such requirements are "readily achievable", and (iii) whether a given alteration affects a "primary function area" or triggers "path of travel" requirements. The parties hereby agree that: (a) Landlord shall perform any required Disabilities Acts compliance in the Common Areas, except as provided below, (b) Tenant shall perform any required Disabilities Acts compliance in the Premises, and (c) Landlord may perform, or require that Tenant perform, and Tenant shall be responsible for the cost of, Disabilities Acts "path of travel" and other requirements triggered by any public accommodation or other use of, or alterations in, the Premises by Tenant. Tenant shall be responsible for Disabilities Acts requirements relating to Tenant's employees, and Landlord shall be responsible for Disabilities Acts requirements relating to Landlord's employees.

SECTION 31: DEFINITIONS

- (A) "Building" shall mean the structure (or the portion thereof operated by Landlord) identified in Section 1 within which the Premises are located.
- (B) "Common Areas" shall mean the lobbies, walkways, elevators and other portions of the Property which are provided by Landlord, from time to time, for use in common by Landlord, Tenant and any other tenants of the Building.
- (C) "Default Rate" shall mean eighteen percent (18%) per annum, or the highest rate permitted by applicable Law, whichever shall be less.
- (D) "Holidays" shall mean all federal holidays, and holidays observed by the State of Washington, including New Year's Day, President's Day, Memorial Day, Independence Day, Labor Day, Veterans' Day, Thanksgiving Day, Christmas Day, and to the extent of utilities or services provided by union members engaged at the Property, such other holidays observed by such unions.
- (E) "Landlord" shall mean only the landlord from time to time, except for purposes of any provisions defending, indemnifying and holding Landlord harmless hereunder, "Landlord" shall include past, present and future landlords and their respective partners, beneficiaries, trustees, officers, directors, employees, shareholders, principals, agents, affiliates, successors and assigns.
- (F) "Law" or "Laws" shall mean all federal, state, county and local governmental and municipal laws (including without limitation Disabilities Acts), statutes, ordinances, rules, regulations, codes, decrees, orders and other such requirements, applicable equitable remedies and decisions by courts in cases where such decisions are considered binding precedents in the State of Washington, and decisions of federal courts applying the Laws of such State, at the time in question. This Lease shall be interpreted and governed by the Laws of the State of Washington.
- (G) "Lender" shall mean the holder of any Mortgage at the time in question, and where such Mortgage is a ground lease, such term shall refer to the ground Landlord (and the term "ground lease" although not separately capitalized is intended throughout this Lease to include any superior or master lease).
- (H) "Mortgage" shall mean all mortgages, deeds of trust, ground leases and other such encumbrances now or hereafter placed upon the Property, Building or Premises, or any part thereof or interest therein, and all renewals, modifications, consolidations, replacements or extensions thereof, and all indebtedness now or hereafter secured thereby and all interest thereon.
- (I) "Normal Business Hours" shall mean 8:00 a.m. to 6:00 p.m. Monday through Friday.
- (J) "Premises" shall mean the area within the Building identified in Section 1 and Exhibit B. Possession of areas necessary for utilities, services, safety and operation of the Building, including the Systems and Equipment, fire stairways, perimeter walls, space between the finished ceiling of the Premises and the slab of the floor or roof of the Building thereabove, and the use thereof together with the right to install, maintain, operate, repair and replace the Systems and Equipment, including any of the same in, through, under or above the Premises in locations that will not materially interfere with Tenant's use of the Premises, are hereby excepted and reserved by Landlord, and not demised to Tenant.
- (K) "Property" shall mean the real property legally described in Exhibit A of this Lease together with all landscaping, improvements and personal property located thereon and related to the Building or its operation or maintenance.
- (L) "Rent" shall have the meaning specified therefor in Section 4.
- (M) "Systems and Equipment" shall mean any plant, machinery, transformers, duct work, cable, wires, and other equipment, facilities, and systems designed to supply light, heat, ventilation, air conditioning and humidity, or any other services or utilities, or comprising or serving as any component or portion of the electrical, gas, steam, plumbing, sprinkler, communications, alarm, security, or fire/life/safety systems or equipment, or any elevators, escalators or other mechanical, electrical, electronic, computer or other systems or equipment for the Building, except to the extent that any of the same serves particular tenants exclusively (and "systems and equipment" without capitalization shall refer to such of the foregoing items serving particular tenants exclusively).
- (N) "Tenant" shall be applicable to one or more persons or entities as the case may be, the singular shall include the plural, and if there be more than one Tenant, the obligations thereof shall be joint and several. When used in the lower case, "tenant" shall mean any other tenant, subtenant or occupant of the Building or Property.

- (O) "Tenant's Share" of Expenses and Taxes pursuant to Section 4 shall be the percentage set forth in Section 1, but if the rentable area of the Premises or Building shall change, Tenant's Share shall thereupon become the rentable area of the Premises divided by the rentable area of the Building, excluding any parking facilities, subject at all times to adjustment under Section 4. Tenant acknowledges that the "rentable area of the Premises" under this Lease includes the usable area, without deduction for columns or projections, multiplied by a load or conversion factor, to reflect a share of certain areas, which may include lobbies, corridors, mechanical, utility, janitorial, boiler and service rooms and closets, restrooms, and other public, common and service areas, all as reasonably determined by Landlord. Except as provided expressly to the contrary herein, the "rentable area of the Building" shall include all rentable area of all space leased or available for lease at the Building, which Landlord may reasonably re determine from time to time, to reflect re configurations, additions or modifications to the Building.

SECTION 32: OFFER

The submission and negotiation of this Lease shall not be deemed an offer to enter the same by Landlord (nor an option or reservation for the Premises), but the solicitation of such an offer by Tenant. Tenant agrees that its execution of this Lease constitutes a firm offer to enter the same which may not be withdrawn for a period of thirty (30) days after delivery to Landlord. During such period and in reliance on the foregoing, Landlord may, at Landlord's option, deposit any Security Deposit and Rent, proceed with any plans, specifications, alterations or improvements, and permit Tenant to enter the Premises, but such acts shall not be deemed an acceptance of Tenant's offer to enter this Lease, and such acceptance shall be evidenced only by Landlord signing and delivering this Lease to Tenant.

SECTION 33: MISCELLANEOUS

A. Captions and Interpretation. The captions of the Sections of this Lease are for convenience of reference only and shall not be considered or referred to in resolving questions of interpretation. Tenant acknowledges that it has read this Lease and that it has had the opportunity to confer with counsel in negotiating this Lease; accordingly, this Lease shall be construed neither for nor against Landlord or Tenant, but shall be given a fair and reasonable interpretation in accordance with the meaning of its terms. The neuter shall include the masculine and feminine, and the singular shall include the plural. The term "including" shall be interpreted to mean "including, but not limited to."

B. Survival of Provisions. All obligations (including indemnity, Rent and other payment obligations) or rights of either party arising during or attributable to the period prior to expiration or earlier termination of this Lease shall survive such expiration or earlier termination.

C. Severability. If any term or provision of this Lease or portion thereof shall be found invalid, void, illegal, or unenforceable generally or with respect to any particular party, by a court of competent jurisdiction, it shall not affect, impair or invalidate any other terms or provisions or the remaining portion thereof, or its enforceability with respect to any other party.

D. Short Form Lease. Neither this Lease nor any memorandum of lease or short form lease shall be recorded by Tenant, but Landlord or any Lender may elect to record a short form of this Lease, in which case Tenant shall promptly execute, acknowledge and deliver the same on a form prepared by Landlord or such Lender.

E. Light, Air and Other Interests. This Lease does not grant any legal rights to "light and air" outside the Premises nor any particular view visible from the Premises, nor any easements, licenses or other interests unless expressly contained in this Lease.

F. Authority. If Tenant is any form of corporation, partnership, limited liability company or partnership, association or other organization, Tenant and all persons signing for Tenant below hereby represent that this Lease has been fully authorized and no further approvals are required, and Tenant is duly organized, in good standing and legally qualified to do business in the Premises (and has any required certificates, licenses, permits and other such items).

G. Joint and Several. If there is more than one Tenant, the obligations imposed upon Tenant under this Lease shall be joint and several. In the event that the Tenant is a married individual, the terms, covenants and conditions of this Lease shall be binding upon the marital community of which the Tenant is a member.

H. Financial Statements. Tenant shall, within ten (10) days after requested from time to time, deliver to Landlord financial statements (including balance sheets and income/expense statements) for Tenant's then most recent full and partial fiscal year preceding such request, certified by an independent certified public accountant or Tenant's chief financial officer, in form reasonably satisfactory to Landlord.

I. Successors and Assigns; Transfer of Property and Security Deposit. Each of the terms and provisions of this Lease shall be binding upon and inure to the benefit of the parties' respective heirs, executors, administrators, guardians, custodians, successors and assigns, subject to Section 14 respecting Transfers and Section 17 respecting rights of Lenders. Subject to Section 17, if Landlord shall convey or transfer the Property or any portion thereof in which the Premises are contained to another party, such party shall thereupon be and become landlord hereunder and shall be deemed to have fully assumed all of Landlord's obligations under this Lease accruing during such party's ownership, including the return of any Security Deposit (provided Landlord shall have turned over such Security Deposit to such party), and Landlord shall be free of all such obligations accruing from and after the date of conveyance or transfer.

J. Rent and Taxes. In addition to the provisions of Section 15, all Rent due Landlord herein is exclusive of any sales, business and occupational gross receipts or tax based on rents or tax upon this Lease or tax measured by the number of employees of Tenant or the area of the Premises or any similar tax or charge. If any such tax or charge be hereafter enacted, Tenant shall reimburse to Landlord the amount thereof with each monthly Base Rent payment. If it shall not be lawful for Tenant to so reimburse Landlord, the monthly Base Rent payable to Landlord under this Lease shall be revised to net Landlord the same net rental after imposition of any such tax or charge upon Landlord as would have been payable to Landlord prior to the imposition of such tax or charge. Tenant shall not be liable to reimburse Landlord any federal income tax or other income tax of a general nature applicable to Landlord's income.

K. Limitation of Landlord's Liability. Tenant agrees to look solely to Landlord's interest in the Building for the enforcement of any judgment, award, order or other remedy under or in connection with this Lease or any related agreement, instrument or document or for any other matter whatsoever relating thereto or to the Building or Premises. Under no circumstances shall any present or future, direct or indirect, principals or investors, general or limited partners, officers, directors, shareholders, trustees, beneficiaries, participants, advisors, managers, employees, agents or affiliates of Landlord, or of any of the other foregoing parties, or any of their heirs, successors or assigns have any liability for any of the foregoing matters.

L. Signage. Landlord agrees to provide Tenant, at Landlord's sole cost, Building standard signage on the lobby directory board and the principal floor where the Premises are located in a manner consistent with other tenants in the Building.

M. Building Renovations. It is specifically understood and agreed that Landlord has no obligation and has made no promises to alter, remodel, improve, renovate, repair or decorate the Premises, Building, or any part thereof and that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant except as specifically set forth herein or in the Work Letter. However, Tenant hereby acknowledges that Landlord is currently renovating or may during the Lease Term renovate, improve, alter, or modify the Project, the Building and/or the Premises (collectively, "Renovations"). Except as specifically provided in this Lease, Tenant hereby agrees that such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Landlord shall have no responsibility and shall not be liable to Tenant for any injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's personal property or improvements resulting from the Renovations, or for any inconvenience or annoyance occasioned by such Renovations. Notwithstanding the foregoing, Landlord shall use commercially reasonable efforts to perform all Renovations in a manner, whenever reasonably possible, to minimize any material, adverse or unreasonable interference with Tenant's use of or access to the Premises.

N. Force Majeure. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, acts of war, terrorist acts, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease (collectively, a "Force Majeure"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

O. Patriot Act. Tenant represents, warrants and covenants that Tenant (i) is not listed on the Specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Asset Control, Department of the Treasury ("OFAC") pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001)("Order") and all applicable provisions of Title III of the USA Patriot Act (Public Law No. 107-56 (October 26, 2001)); (ii) is not listed on the Denied Persons List and Entity List maintained by the United States Department of Commerce; (iii) is not listed on the List of Terrorists and List of Disbarred Parties maintained by the United States Department of State; (iv) is not listed on any list or qualification of "Designated Nationals" as defined in the Cuban Assets Control Regulations 31 C.F.R. Part 515; (v) is not listed on any other publicly available list of terrorists, terrorist organizations or narcotics traffickers maintained by the United States Department of State, the United States Department of Commerce or any other governmental authority or pursuant to the Order, the rules and regulations of OFAC, or any other applicable requirements contained in any enabling legislation or other Executive Orders in respect of the Order (the Order and such other rules, regulations, legislation or orders are collectively called the "Orders"); (vi) is not engaged in activities prohibited in the Orders; and (vii) has not been convicted, pleaded nolo contendere, indicted, arraigned or custodially detained on charges involving money laundering or predicate crimes to money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes or in connection with the Bank Secrecy Act (31 U.S.C. §§ 5311 et. seq.).

P. REIT. Landlord and Tenant hereby agree that it is their intent that all Rent due under this Lease shall qualify as “rents from real property” within the meaning of Sections 512(b)(3) and 856(d) of the Internal Revenue Code of 1986, as amended (“Code”), and the U.S. Department of the Treasury Regulations promulgated thereunder (“Regulations”). In the event that (i) the Code or the Regulations, or interpretations thereof by the Internal Revenue Service contained in revenue rulings or other similar public pronouncements, shall be changed so that any Rent no longer so qualifies as “rent from real property” for purposes of either said Section 512(b)(3) or Section 856(d) or (ii) Landlord, in its sole discretion, determines that there is any risk that all or part of any Rent shall not qualify as “rents from real property” for the purposes of either said Sections 512(b)(3) or 856(d), Tenant agrees to cooperate with Landlord and enter into such amendment or amendments to this Lease as Landlord deems necessary to qualify all Rent as “rents from real property,” provided, however, that (A) any amendment required under this Section shall be made so as to produce, to the extent possible, the equivalent (in economic terms) Rent as payable before the amendment, and (B) in the event that Landlord determines that an amendment cannot produce economically equivalent Rent as described in clause (A), the Rent payable under any such amendment shall not be any less favorable to Tenant than the Rent payable under this Lease immediately prior to such amendment. Additionally, no Rent payable under this Lease may be attributable to personal property unless (i) such personal property is leased under, or in connection with, the lease of real property hereunder, and (ii) the Rent attributable to the personal property for each taxable year does not exceed 15% of the total Rent for the taxable year attributable to both the real and personal property leased under or in connection with this Lease. The parties agree to execute such further commercially reasonable instrument as may reasonably be required by Landlord in order to give effect to the foregoing provisions of this Section.

Q. Applicable Law and Other Matters. This Lease shall be interpreted and construed under and pursuant to the laws of the State of Washington. Any action regarding or arising from this Lease shall be brought in the Washington State Superior or Federal District Courts located in the county where the Property is located. Time is of the essence of this Lease. In the event an attorney is engaged by either party to enforce the terms of this Lease or in the event suit is brought relating to or arising from this Lease, the prevailing party shall be entitled to recover from the other party its reasonable attorneys’ fees and costs. Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either party against the other on any matters whatsoever arising out of this Lease, or any other claims.

R. Confidentiality. Tenant shall keep the content and all copies of this Lease, related documents or amendments now or hereafter entered, and all proposals, materials, information and matters relating thereto strictly confidential, and shall not disclose, disseminate or distribute any of the same, or permit the same to occur, except to the extent reasonably required for proper business purposes by Tenant’s employees, attorneys, insurers, auditors, lenders and Transferees (and Tenant shall obligate any such parties to whom disclosure is permitted to honor the confidentiality provisions hereof), and except as may be required by Law or court proceedings.

S. Counterparts. This Lease may be executed in counterparts with the same effect as if both parties hereto had executed the same document. Both counterparts shall be construed together and shall constitute a single lease.

SECTION 34: ENTIRE AGREEMENT

This Lease, together with the Riders, Exhibits and other documents listed in Section 1 (which collectively are hereby incorporated where referred to herein and made a part hereof as though fully set forth), contains all the terms and provisions between Landlord and Tenant relating to the matters set forth herein and no prior or contemporaneous agreement or understanding pertaining to the same shall be of any force or effect, except any such contemporaneous agreement specifically referring to and modifying this Lease, signed by both parties. Neither this Lease, nor any Riders or Exhibits referred to above may be modified, except in writing signed by both parties.

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IN WITNESS WHEREOF, the parties have executed this Lease as of the date first set forth above.

LANDLORD:

LOGAN BUILDING LLC,
a Delaware limited liability company

By: Unico Boutique Office Portfolio LP, a Delaware limited partnership, Manager

By: Unico Boutique Office Portfolio GP LLC, a Delaware limited liability company, General Partner

By: Unico Investment Group LLC, a Delaware limited liability company, Member

By: /s/ Andrew Cox
Name: Andrew Cox
Title: VP

TENANT:

VISUALANT INCORPORATED,
a Nevada corporation

By: /s/ Ron Erickson
Name: Ron Erickson
Title: CEO

LANDLORD ACKNOWLEDGMENT

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it as the _____ of Unico Investment Group LLC, a Delaware limited liability company, the Member of Unico Boutique Office Portfolio GP LLC, a Delaware limited liability company, the General Partner of Unico Boutique Office Portfolio LP, a Delaware limited partnership, the Manager of LOGAN BUILDING LLC, a Delaware limited liability company, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

DATED this _____ day of _____, 2016.

NOTARY PUBLIC in and for the State of Washington, residing at

Name (printed or typed)
My appointment expires: _____

TENANT ACKNOWLEDGMENT

STATE OF _____)
) ss.
COUNTY OF _____)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the _____ of VISUALANT INCORPORATED, a Nevada corporation, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

DATED this _____ day of _____, 2016.

NOTARY PUBLIC in and for the State of _____, residing at

Name (printed or typed)
My appointment expires: _____

EXHIBIT A

(Legal Description of Property)

LOTS 9 AND 12, BLOCK 17, ADDITION TO THE TOWN OF SEATTLE AS LAID OUT BY A. A. DENNY (COMMONLY KNOWN AS A. A. DENNY'S 3RD ADDITION TO THE CITY OF SEATTLE), ACCORDING TO THE PLAT THEREOF, RECORDED IN VOLUME 1 OF PLATS, PAGE(S) 33, IN KING COUNTY, WASHINGTON;

EXCEPT THE SOUTHERLY 5 FEET IN WIDTH OF SAID LOT 12 CONDEMNED IN KING COUNTY SUPERIOR COURT CAUSE NUMBER 82589 FOR WIDENING OF UNION STREET, AS PROVIDED BY ORDINANCE NUMBER 18188 OF THE CITY OF SEATTLE;

TOGETHER WITH THOSE EASEMENT RIGHTS APPURTENANT TO SAID PREMISES CONTAINED IN BUILDING AGREEMENT RECORDED UNDER RECORDING NUMBER 8704210116.

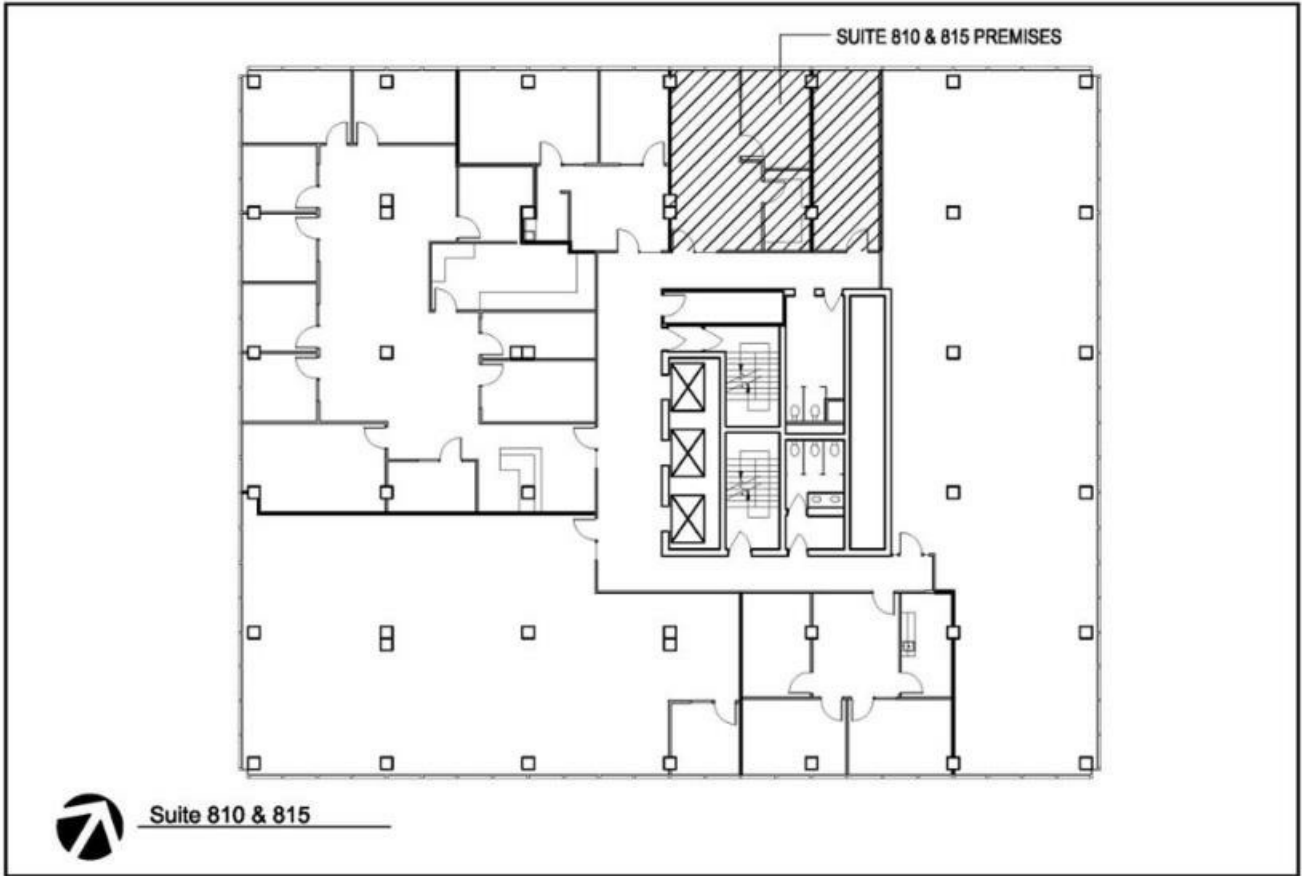
THE ABOVE ALSO BEING DESCRIBED AS FOLLOWS:

COMMENCING AT THE MOST SOUTHERLY CORNER OF SAID LOT 12;
THENCE NORTH 30°38'10" WEST 5.00 FEET TO THE POINT OF BEGINNING;
THENCE CONTINUING NORTH 30°38'10" WEST 114.92 FEET TO THE MOST WESTERLY CORNER OF LOT 9;
THENCE NORTH 59°22'16" EAST 119.97 FEET TO THE MOST NORTHERLY CORNER OF LOT 9;
THENCE SOUTH 30°37'36" EAST 114.90 FEET TO THE MOST NORTHWESTERLY MARGIN OF UNION STREET;
THENCE SOUTH 59°21'23" WEST 119.95 FEET TO THE POINT OF BEGINNING;

SITUATE IN THE CITY OF SEATTLE, COUNTY OF KING, STATE OF WASHINGTON.

EXHIBIT B

(Floor Plate Showing Premises)



Logan Building
8th Floor
December 5, 2016

1400 5th Avenue
Seattle, WA

EXHIBIT C

(Work Letter)

This Work Letter sets forth the terms and conditions relating to the construction of improvements for the Premises.

SECTION 1

LANDLORD'S OBLIGATIONS

Except for disbursement of the Tenant Improvement Allowance set forth below or as otherwise set forth in the Lease, Landlord shall not be obligated to make or pay for any alterations or improvements to the Premises, the Building or the Project, except that Landlord will demolish one wall, and provide a new ceiling and new PIU's, all of which shall be at Landlord's sole cost and expense.

SECTION 2

TENANT IMPROVEMENTS

2.1 Tenant Improvement Allowance; Space Planning Allowance. Subject to the terms and conditions contained herein, Tenant shall be entitled to a one-time tenant improvement allowance (the "**Tenant Improvement Allowance**") in the amount of \$23,575.00 (i.e., \$25.00 per rentable square foot) for the costs relating to the initial design and construction of Tenant's improvements (the "**Tenant Improvements**"), as further described in Section 2.2.1 below. In no event shall Landlord be obligated to make disbursements pursuant to this Work Letter in a total amount which exceeds the Tenant Improvement Allowance. Notwithstanding any provision to the contrary contained herein, to the extent any portion of the Tenant Improvement Allowance is unused by Tenant as of the date which is the first anniversary of the Lease Commencement Date (the "**Outside Date**"), then the remaining balance thereof shall revert to Landlord, and Tenant shall have no right to use such amount for any remaining improvements or alterations, nor as a Rent credit or cash allowance.

2.2 Disbursement of the Tenant Improvement Allowance.

2.2.1 Tenant Improvement Allowance Items. Except as otherwise set forth in this Work Letter, the Tenant Improvement Allowance shall be disbursed by Landlord only for the following items and costs (collectively the "**Tenant Improvement Allowance Items**");

2.2.1.1 Payment of the fees of the Architect (and any other architects retained by Tenant, or by Architect) and the Engineers, as those terms are defined in Section 3.1 of this Work Letter, and payment of the fees of other professional services provided to Tenant in the design and construction of the Tenant Improvements, and payment of the actual and reasonable third party fees incurred by, and the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the preparation and review of the "**Construction Drawings**," as that term is defined in Section 3.1 of this Work Letter;

2.2.1.2 The payment of plan check, permit and license fees relating to construction of the Tenant Improvements;

2.2.1.3 The cost of construction of the Tenant Improvements, including, without limitation, testing and inspection costs, freight elevator usage, hoisting and trash removal costs, and contractors' fees and general conditions;

2.2.1.4 The cost of any changes in the existing Building structure, capacities or systems ("**Base Building**") when such changes are required by the Construction Drawings (including, without limitation, if such changes are due to the fact that such work is prepared on an unoccupied basis), such cost to include all direct architectural and/or engineering fees and expenses incurred in connection therewith;

2.2.1.5 The cost of any changes to the Construction Drawings or Tenant Improvements required by all applicable building codes (the "**Code**");

2.2.1.6 Sales and use taxes;

2.2.1.7 A construction supervision fee payable to Unico Properties LLC (Landlord's property manager) equal to 4.0% of the Final Costs (as defined below) of the Tenant Improvements; and

2.2.1.8 Any other out-of-pocket costs expended by Landlord in payment of cost items included in the Final Costs (as defined in Section 4.2.1 below) as agreed by Tenant, or as a result of Tenant's failure to perform its obligations in connection with the construction of the Tenant Improvements.

2.2.2 Disbursement of Tenant Improvement Allowance. Upon written request from Tenant, Landlord shall disburse the Tenant Improvement Allowance (or the remaining portion thereof after disbursement to third parties for any Tenant Improvement Allowance Items) to Tenant within thirty (30) days after Tenant has opened for business, completed construction of the Tenant Improvements, and delivered to Landlord the following:

- 2.2.2.1 A detailed Final Costs statement showing the actual total costs of construction of the Tenant Improvements;
- 2.2.2.2 A complete list of the names, addresses, telephone numbers and contract amounts for all Tenant's contractor, subcontractors, vendors and/or suppliers of labor and/or materials for Tenant's Work providing work, services and/or material in excess of \$5,000.00 ("Major Contractors");
- 2.2.2.3 All mechanics' lien releases or other lien releases on account of Tenant's Work from Major Contractors, which are notarized, unconditional and in recordable form or in such form as Landlord shall have approved;
- 2.2.2.4 Copies of all building permits, indicating inspection and approval of the Premises by the issuer of said permits;
- 2.2.2.5 An architect's certification that the Premises have been constructed in accordance with the Approved Working Drawings (defined below); and
- 2.2.2.6 (i) Final unconditional waivers of liens, contractors' affidavits, and architects' certificates in such form as may be required by Landlord and Landlord's title insurance company from all parties performing labor or supplying materials or services in connection with the Tenant Improvements showing that all of said parties have been compensated in full and waiving all liens, to the extent not already waived as provided above; (ii) a certificate of occupancy or equivalent as required to occupy the Premises; (iii) "as built" drawings and other final documentation; and (iv) a detailed breakdown of Tenant's total construction costs. The "as built" drawings and other final documentation shall include the following:

- Electrical sub letter confirming electrical panels updated with all circuits
- HVAC balance reports
- Electrical phase balance reports
- Updated fire alarm points list
- As – built drawings in ACAD and PDF
- O&M manuals inclusive of all submittals and finishes
- Warranties of Contractor and subcontractors
- AutoCAD files in an AIA standard layering system, and pdf disk set via e-mail of architectural and MEP
- As built controls instruction and sequence of operation
- Fan, pump, and balancing valve curves
- Updated valve schedules
- Valve schedule indicating valve tag number, location by room number, valve purpose and size, indicate damper locations and purpose. This information to be included for the following systems: 1. Refrigerant system 2. HVAC system 3. Exhaust system 4. Plumbing and HVAC piping systems 5. Temperature control system 6. Any other system installed but not listed above.

In no event shall the portion of the Tenant Improvement Allowance disbursed directly to Tenant exceed the actual out-of-pocket costs incurred by Tenant for construction of the Tenant Improvements.

SECTION 3

CONSTRUCTION DRAWINGS

3.1 Selection of Architect/Construction Drawings. Tenant shall retain an architect/space planner reasonably approved by Landlord (the "Architect") to prepare the "Construction Drawings," as that term is defined in this Section 3.1. Tenant shall retain engineering consultants approved by Landlord (the "Engineers") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, life safety, and sprinkler work in the Premises, which work is not part of the Base Building. Landlord's approval of the Engineers shall not be unreasonably withheld and Landlord shall be deemed to have approved the Engineers proposed by Tenant if Landlord does not provide written notice of disapproval within five (5) business days after Tenant's written request for approval. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the "Construction Drawings." All Construction Drawings shall be subject to Landlord's approval, which shall not be unreasonably withheld, conditioned or delayed. Tenant and Architect shall verify, in the field, the dimensions and conditions as shown on the relevant portions of the Base Building plans, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Landlord's review of the Construction Drawings as set forth in this Section 3, shall be for its sole purpose and shall not imply Landlord's review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord's space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors contained in the Construction Drawings, and Tenant's waiver and indemnity set forth in this Lease shall specifically apply to the Construction Drawings.

3.2 Final Space Plan. Tenant shall supply Landlord with four (4) copies signed by Tenant of its final space plan for the Premises before any architectural working drawings or engineering drawings have been commenced. The final space plan (the “**Final Space Plan**”) shall include a layout and designation of all offices, rooms and other partitioning, their intended use, and equipment to be contained therein, as well as the storefront and façade of the Premises. Landlord may request clarification or more specific drawings for special use items not included in the Final Space Plan. Landlord shall advise Tenant within five (5) business days after Landlord’s receipt of the Final Space Plan for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall promptly cause the Final Space Plan to be revised to correct any deficiencies or other matters Landlord may reasonably require. Notwithstanding anything to the contrary in this Section 3.2, Landlord shall not unreasonably withhold, condition or delay its approval of the Final Space Plan; provided, however, that to the extent that such Final Space Plan may (i) affect the exterior of the Building, (ii) adversely affect the structural portions of the Building, (iii) adversely affect the Building systems and equipment, (iv) unreasonably interfere with any other occupant’s normal and customary office operation, (v) fail to comply with Applicable Laws, or (vi) fail to meet or exceed the Specifications, then Landlord may grant or withhold its approval of such Final Space Plan in its sole discretion.

3.3 Final Working Drawings. After the Final Space Plan has been approved by Landlord, Tenant shall supply the Engineers with a complete listing of standard and non-standard equipment and specifications, including, without limitation, B.T.U. calculations, electrical requirements and special electrical receptacle requirements for the Premises, to enable the Engineers and the Architect to complete the “**Final Working Drawings**” (as that term is defined below) in the manner as set forth below. Upon the approval of the Final Space Plan by Landlord and Tenant, Tenant shall promptly cause the Architect and the Engineers to complete the architectural and engineering drawings for the Premises, and Architect shall compile a fully coordinated set of architectural, structural, mechanical, electrical and plumbing working drawings in a form which is complete to allow subcontractors to bid on the work and to obtain all applicable permits (collectively, the “**Final Working Drawings**”) and shall submit the same to Landlord for Landlord’s approval. Tenant shall supply Landlord with four (4) copies signed by Tenant of such Final Working Drawings. Landlord shall advise Tenant within five (5) business days after Landlord’s receipt of the Final Working Drawings for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall immediately revise the Final Working Drawings in accordance with such review and any disapproval of Landlord in connection therewith and resubmit them to Landlord. Landlord shall advise Tenant within five (5) business days after Landlord’s receipt of any revised Final Working Drawings for the Premises if the same is unsatisfactory or incomplete in any respect. Notwithstanding anything to the contrary in this Section 3.3, Landlord shall not unreasonably withhold, condition or delay its approval of the Final Working Drawings; provided, however, that to the extent that such Final Working Drawings may (i) affect the exterior appearance of the Building, (ii) adversely affect the structural portions of the Building, (iii) adversely affect the Building systems and equipment, (iv) unreasonably interfere with any other occupant’s normal and customary office operation, (v) fail to comply with Applicable Laws, or (vi) fail to meet or exceed the Specifications, then Landlord may grant or withhold its approval of such Final Working Drawings in its sole discretion. Once approved by Landlord, the Final Working Drawings are the “**Approved Working Drawings**”.

3.4 Approved Working Drawings. After approval by Landlord of the Final Working Drawings, Tenant may submit the same to the appropriate municipal authorities for all applicable building permits. Tenant hereby agrees that neither Landlord nor Landlord’s consultants shall be responsible for obtaining any building permit or certificate of occupancy for the Premises and that obtaining the same shall be Tenant’s responsibility; provided, however, that Landlord shall timely cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any such permit or certificate of occupancy. No changes, modifications or alterations in the Approved Working Drawings may be made without the prior written consent of Landlord, which consent may not be unreasonably withheld, conditioned or delayed.

SECTION 4

CONSTRUCTION OF THE TENANT IMPROVEMENTS

Tenant’s Selection of Contractors

4.1.1 The Contractor. A general contractor shall be retained by Tenant to construct the Tenant Improvements. Such general contractor (“**Contractor**”) shall be selected by Tenant subject to Landlord’s prior approval, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant shall have the right, but not the obligation, to submit the Tenant Improvements for competitive bidding to two (2) or more general contractors.

4.1.2 Tenant’s Agents. All subcontractors used by Tenant (such subcontractors, and the Contractor, to be known collectively as “**Tenant’s Agents**”) must be approved in writing by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. If Landlord does not approve any of Tenant’s proposed subcontractors, Tenant shall submit other proposed subcontractors for Landlord’s written approval. Landlord shall either approve or disapprove (with specific reasons for such disapproval) such Tenant’s Agents within five (5) days after Landlord’s receipt of Tenant’s request. The subcontractors set forth on Annex B hereto are hereby approved by Landlord.

4.2 Construction of Tenant Improvements by Tenant's Agents

4.2.1 Construction Contract: Cost Budget. Prior to the commencement of the construction of the Tenant Improvements, and after Tenant has accepted all bids for the Tenant Improvements, Tenant shall provide Landlord with a detailed breakdown, by trade, of the final costs to be incurred or which have been incurred, in connection with the design and construction of the Tenant Improvements to be performed by or at the direction of Tenant or the Contractor, which costs form a basis for the amount of the construction contract and general conditions with Contractor (the "Final Costs").

4.2.2 Tenant's Agents.

4.2.2.1 Landlord's General Conditions for Tenant's Agents and Tenant Improvement Work. Tenant's and Tenant's Agent's construction of the Tenant Improvements shall comply with the following: (i) the Tenant Improvements shall be constructed in strict accordance with the Approved Working Drawings; (ii) Tenant's Agents shall submit schedules of all work relating to the Tenant's Improvements to Contractor and Contractor shall, within five (5) business days of receipt thereof, inform Tenant's Agents of any changes which are necessary thereto, and Tenant's Agents shall adhere to such corrected schedule; and (iii) Tenant shall abide by Landlord's rules and regulations with respect to the use of freight, loading dock and service elevators, storage of materials, coordination of work with the contractors of other tenants, and any other matter in connection with this Work Letter, including, without limitation, the construction of the Tenant Improvements, which rules and regulations are attached hereto as Annex C. Tenant shall not pay a construction supervision or management fee to Landlord in connection with the Tenant Improvements (but a construction supervision fee shall be included as a Tenant Improvement Allowance Item as provided in Section 2.2 above).

4.2.2.2 Indemnity. Tenant's indemnity of Landlord as set forth in this Lease shall also apply with respect to any and all third party claims for costs, losses, damages, injuries and liabilities related in any way to any act or omission of Tenant or Tenant's Agents, or anyone directly or indirectly employed by any of them in connection with the Tenant Improvements, or in connection with Tenant's non-payment of any amount arising out of the Tenant Improvements and/or Tenant's disapproval of all or any portion of any request for payment.

4.2.2.3 Insurance Requirements.

4.2.2.3.1 General Coverages. All of Tenant's Agents shall carry (a) worker's compensation insurance as required by law covering all of their respective employees, (b) Employer's Liability with minimum coverages of minimum of \$500,000 each accident; \$500,000 disease, policy limit; \$500,000 disease, per employee; (c) Broad Form Commercial General Liability (naming Landlord and its property manager as additional insureds) with policy limits of \$1,000,000 per occurrence Combined Single Limit and \$3,000,000 aggregate (i.e., such insurance shall be broad form and shall include contractual liability, personal injury protection and completed operations coverage); (d) Auto Liability with coverage of at least \$1,000,000; and (e) Property Insurance coverage for tools and equipment brought onto and/or used on any Property by the applicable contractor in an amount equal to the replacement costs of all such tools and equipment.

4.2.2.3.2 Builder's Risk Coverages. Tenant or Tenant's Contractor shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of the Tenant Improvements, and such other insurance as Landlord may reasonably require, it being understood and agreed that the Tenant Improvements shall be insured by Tenant pursuant to this Lease immediately upon completion thereof. Such insurance shall be in amounts and shall include such extended coverage endorsements as may be reasonably required by Landlord including, but not limited to, the requirement that all of Tenant's Agents shall carry excess liability and Products and Completed Operation Coverage insurance, each in amounts not less than \$500,000 per incident, \$1,000,000 in aggregate, and in form and with companies as are required to be carried by Tenant as set forth in this Lease.

4.2.2.3.3 General Terms. Certificates for all insurance carried pursuant to this Section 4.2.2.3 shall be delivered to Landlord before the commencement of construction of the Tenant Improvements and before the Contractor's equipment is moved onto the site. All such policies of insurance must contain a provision that the company writing said policy will give Landlord thirty (30) days prior written notice of any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. In the event that the Tenant Improvements are damaged by any cause during the course of the construction thereof, Tenant shall immediately direct its Contractor or Tenants Agents as appropriate to repair the same at Tenant's sole cost and expense. Tenant's Agents shall maintain all of the foregoing insurance coverage in force until the Tenant Improvements are fully completed and accepted by Landlord pursuant to this Work Letter, except for any Products and Completed Operation Coverage insurance required by Landlord, which is to be maintained for one (1) year following completion of the work and acceptance by Landlord and Tenant. All policies carried under this Section 4.2.2.3 shall insure Landlord and Tenant, as their interests may appear, as well as Contractor and Tenant's Agents. All insurance, except Workers' Compensation, maintained by Tenant's Agents shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the owner and that any other insurance maintained by owner is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 4.2.2.2 of this Work Letter. Landlord may, in its reasonable discretion, require Tenant to obtain a lien and completion bond or some alternate form of security reasonably satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of the Tenant Improvements and naming Landlord as a co-obligee.

4.2.3 Governmental Compliance. The Tenant Improvements shall comply in all respects with the following: (i) the Code and other state, federal, city or quasi-governmental laws, codes, ordinances and regulations, as each may apply according to the rulings of the controlling public official, agent or other person; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; and (iii) building material manufacturer's specifications.

4.2.4 Inspection by Landlord. Upon reasonable prior notice to Tenant, Landlord shall have the right to inspect the Tenant Improvements at all times, provided however, that Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's inspection of the Tenant Improvements constitute Landlord's approval of the same. Landlord shall conduct any such inspections in a manner so as to minimize any disruption of construction of the Tenant Improvements. Should Landlord reasonably and in good faith disapprove any portion of the Tenant Improvements, Landlord shall notify Tenant in writing of such disapproval and shall specify the items disapproved. Any such reasonable and good faith disapproval by Landlord of any portion of the Tenant Improvements shall be rectified by Tenant at no expense to Landlord, provided however, that in the event Landlord determines that a defect or deviation exists or disapproves of any matter in connection with any portion of the Tenant Improvements and such defect, deviation or matter might adversely affect the mechanical, electrical, plumbing, heating, ventilating and air conditioning or life-safety systems of the Building, the structure or exterior appearance of the Building or any other tenant's use of such other tenant's leased premises, Landlord may, take such action as Landlord deems necessary, at Tenant's expense and without incurring any liability on Landlord's part, to correct any such defect, deviation and/or matter, including, without limitation, causing the cessation of performance of the construction of the Tenant Improvements until such time as the defect, deviation and/or matter is corrected to Landlord's satisfaction.

4.2.5 Meetings. Commencing upon the execution of this Lease, Tenant shall hold weekly meetings at a reasonable time, with the Architect and the Contractor regarding the progress of the preparation of Construction Drawings and the construction of the Tenant Improvements, which meetings may be held by teleconference or at a mutually convenient location in the Seattle area agreed upon by Tenant and Landlord, and Landlord and/or its agents shall receive prior notice of, and shall have the right to attend, all such meetings, and, upon Landlord's request, certain of Tenant's Agents shall attend such meetings. In addition, minutes shall be taken at all such meetings, a copy of which minutes shall be promptly delivered to Landlord.

4.3 Copy of Record Set of Plans. At the conclusion of construction, (i) Tenant shall cause the Architect and Contractor (A) to update the Approved Working Drawings as necessary to reflect all changes made to the Approved Working Drawings during the course of construction, (B) to certify to the best of their knowledge that the "record-set" of as-built drawings are true and correct, which certification shall survive the expiration or termination of this Lease, and (C) to deliver to Landlord two (2) sets of copies of such record set of drawings within ninety (90) days following issuance of a certificate of occupancy for the Premises, and (ii) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals and information relating to the improvements, equipment, and systems in the Premises.

SECTION 5

MISCELLANEOUS

5.1 Representatives. Tenant's Representative means _____ (phone: _____; e-mail: _____). Until further notice to Landlord, such Tenant's Representative shall have full authority and responsibility to act on behalf of the Tenant as required in this Work Letter. Landlord's Representative shall mean Vicki Fehl (phone: 206-628-5060; e-mail: victoriaf@unicoprop.com) and Rob Lavergne (phone: 206-628-5066; e-mail: robl@unicoprop.com).

5.2 Time of the Essence in This Work Letter. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

5.3 Tenant's Lease Default. Notwithstanding any provision to the contrary contained in this Lease, if an event of default as described in the Lease has occurred at any time on or before the completion of the Premises, and such default is not cured within the applicable cure period set forth in the Lease, then (i) in addition to all other rights and remedies granted to Landlord pursuant to the Lease, Landlord shall have the right to withhold payment of all or any portion of the Tenant Improvement Allowance until such time as such default is cured pursuant to the terms of the Lease and/or Landlord may cause Contractor to cease the construction of the Premises until such time as such default is cured pursuant to the terms of the Lease (in which case, Tenant shall be responsible for any delay in the completion of the Premises caused by such work stoppage), and (ii) all other obligations of Landlord under the terms of this Work Letter shall be forgiven until such time as such default is cured pursuant to the terms of the Lease (in which case, Tenant shall be responsible for any delay in the completion of the Premises caused by such inaction by Landlord).

RIDER ONE

RULES

(1) **Access to Property.** On Saturdays, Sundays and Holidays, and on other days between the hours of 6:00 P.M. and 8:00 A.M. the following day, or such other hours as Landlord shall determine from time to time, access to and within the Property and/or to the passageways, lobbies, entrances, exits, loading areas, corridors, elevators or stairways and other areas in the Property may be restricted and access gained by use of a key to the outside doors of the Property, or pursuant to such security procedures Landlord may from time to time impose. Landlord shall in all cases retain the right to control and prevent access to such areas by Persons engaged in activities which are illegal or violate these Rules, or whose presence in the judgment of Landlord shall be prejudicial to the safety, character, reputation and interests of the Property and its tenants (and Landlord shall have no liability in damages for such actions taken in good faith). No Tenant and no employee or invitee of Tenant shall enter areas reserved for the exclusive use of Landlord, its employees or invitees or other Persons. Tenant shall keep doors to corridors and lobbies closed except when persons are entering or leaving.

(2) **Signs.** Tenant shall not paint, display, inscribe, maintain or affix any sign, placard, picture, advertisement, name, notice, lettering or direction on any part of the outside or inside of the Property, or on any part of the inside of the Premises which can be seen from the outside of the Premises without the prior consent of Landlord, and then only such name or names or matter and in such color, size, style, character and material, and with professional designers, fabricators and installers as may be first approved or designated by Landlord in writing. Landlord shall prescribe the suite number and identification sign for the Premises (which shall be prepared and installed by Landlord at Tenant's expense). Landlord reserves the right to remove at Tenant's expense all matter not so installed or approved without notice to Tenant.

(3) **Window and Door Treatments.** Tenant shall not place anything or allow anything to be placed in the Premises near the glass of any door, partition, wall or window which may be unsightly from outside the Premises, and Tenant shall not place or permit to be placed any item of any kind on any window ledge or on the exterior walls. Blinds, shades, awnings or other forms of inside or outside window ventilators or similar devices, shall not be placed in or about the outside windows or doors in the Premises except to the extent, if any, that the design, character, shape, color, material and make thereof is first approved or designated by the Landlord. Tenant shall not install or remove any solar tint film from the windows.

(4) **Lighting and General Appearance of Premises.** Landlord reserves the right to designate and/or approve in writing all internal lighting that may be visible from the public, common or exterior areas. The design, arrangement, style, color, character, quality and general appearance of the portion of the Premises visible from public, common and exterior areas, and contents of such portion of the Premises, including furniture, fixtures, signs, art work, wall coverings, carpet and decorations, and all changes, additions and replacements thereto shall at all times have a neat, professional, attractive, first class office appearance.

(5) **Property Trade Name, Likeness, Trademarks.** Tenant shall not in any manner use the name of the Property for any purpose, or use any trade names or trademarks used by Landlord, any other tenant, or its affiliates, or any picture or likeness of the Property for any purpose other than that of the business address of Tenant, in any letterheads, envelopes, circulars, notices, advertisements, containers, wrapping or other material.

(6) **Deliveries and Removals.** Furniture, freight and other large or heavy items, and all other deliveries may be brought into the Property only at times and in the manner designated by Landlord, and always at the Tenant's sole responsibility and risk. Landlord may inspect items brought into the Property or Premises with respect to weight or dangerous nature or compliance with this Lease or Laws. Landlord may (but shall have no obligation to) require that all furniture, equipment, cartons and other items removed from the Premises or the Property be listed and a removal permit therefor first be obtained from Landlord. Tenant shall not take or permit to be taken in or out of other entrances or elevators of the Property, any item normally taken, or which Landlord otherwise reasonably requires to be taken, in or out through service doors or on freight elevators. Landlord may impose reasonable charges and requirements for the use of freight elevators and loading areas, and reserves the right to alter schedules without notice. Any hand carts used at the Property shall have rubber wheels and sideguards, and no other material handling equipment may be brought upon the Property without Landlord's prior written approval.

(7) **Outside Vendors.** Tenant shall not obtain for use upon the Premises ice, drinking water, vending machine, towel, janitor and other services, except from Persons designated or approved by Landlord. Any Person engaged by Tenant to provide any other services shall be subject to scheduling and direction by the manager or security personnel of the Property. Vendors must use freight elevators and service entrances.

(8) **Overloading Floors; Vaults.** Tenant shall not overload any floor or part thereof in the Premises, or Property, including any public corridors or elevators therein bringing in or removing any large or heavy items, and Landlord may prohibit, or direct and control the location and size of, safes and all other heavy items and require at Tenant's expense supplementary supports of such material and dimensions as Landlord may deem necessary to properly distribute the weight.

(9) **Locks and Keys.** Tenant shall use such standard key system designated by Landlord on all keyed doors to and within the Premises, excluding any permitted vaults or safes (but Landlord's designation shall not be deemed a representation of adequacy to prevent unlawful entry or criminal acts, and Tenant shall maintain such additional insurance as Tenant deems advisable for such events). Tenant shall not attach or permit to be attached additional locks or similar devices to any door or window, change existing locks or the mechanism thereof, or make or permit to be made any keys for any door other than those provided by Landlord. If more than two keys for one lock are desired, Landlord will provide them upon payment of Landlord's charges. In the event of loss of any keys furnished by Landlord, Tenant shall pay Landlord's reasonable charges therefor. The term "key" shall include mechanical, electronic or other keys, cards and passes. Landlord shall not be liable for the consequences of admitting by pass key or refusing to admit to the Premises the Tenant, Tenant's agent or employees or other persons claiming the right of admittance.

(10) **Utility Closets and Connections.** Landlord reserves the right to control access to and use of, and monitor and supervise any work in or affecting, the "wire" or telephone, electrical, plumbing or other utility closets, the Systems and Equipment, and any changes, connections, new installations, and wiring work relating thereto (or Landlord may engage or designate an independent contractor to provide such services). Tenant shall obtain Landlord's prior written consent for any such access, use and work in each instance, and shall comply with such requirements as Landlord may impose, and the other provisions of the Lease respecting electric installations and connections, telephone Lines and connections, and alterations generally. Tenant shall have no right to use any broom closets, storage closets, janitorial closets, or other such closets, rooms and areas whatsoever. Tenant shall not install in or for the Premises any equipment which requires more electric current than Landlord is required to provide under this Lease, without Landlord's prior written approval, and Tenant shall ascertain from Landlord the maximum amount of load or demand for or use of electrical current which can safely be permitted in and for the Premises, taking into account the capacity of electric wiring in the Property and the Premises and the needs of tenants of the Property, and shall not in any event connect a greater load than such safe capacity.

(11) **Plumbing Equipment.** The toilet rooms, urinals, wash bowls, drains, sewers and other plumbing fixtures, equipment and lines shall not be misused or used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein.

(12) **Trash.** All garbage, refuse, trash and other waste shall be kept in the kind of container, placed in the areas, and prepared for collection in the manner and at the times and places specified by Landlord, subject to Lease provisions respecting Hazardous Materials. Landlord reserves the right to require that Tenant participate in any recycling program designated by Landlord.

(13) **Alcohol, Drugs, Food and Smoking.** Landlord reserves the right to exclude or expel from the Property any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of these Rules. Tenant shall not at any time manufacture or sell any spirituous, fermented, intoxicating or alcoholic liquors on the Premises, nor permit the same to occur. Tenant shall not at any time cook, sell, purchase or give away, food in any form by or to any of Tenant's agents or employees or any other parties on the Premises, nor permit any of the same to occur (other than in microwave ovens and coffee makers properly maintained in good and safe working order and repair in lunch rooms or kitchens for employees as may be permitted or installed by Landlord, which does not violate any Laws or bother or annoy any other tenant). Tenant and its employees shall not smoke tobacco on any part of the Property (including exterior areas) except those areas, if any, that are designated or approved as smoking areas by Landlord.

(14) **Use of Common Areas; No Soliciting.** Tenant shall not use the Common Areas, including areas adjacent to the Premises, for any purpose other than ingress and egress, and any such use thereof shall be subject to the other provisions of this Lease, including these Rules. Without limiting the generality of the foregoing, Tenant shall not allow anything to remain in any passageway, sidewalk, court, corridor, stairway, entrance, exit, elevator, parking or shipping area, or other area outside the Premises. Tenant shall not use the Common Areas to canvass, solicit business or information from, or distribute any item or material to, other tenants or invitees of the Property. Tenant shall not make any room to room canvass to solicit business or information or to distribute any item or material to or from other tenants of the Property and shall not exhibit, sell or offer to sell, use, rent or exchange any products or services in or from the Premise unless ordinarily embraced within the Tenant's use of the Premises expressly permitted in the Lease.

(15) **Energy and Utility Conservation.** Tenant shall not waste electricity, water, heat or air conditioning or other utilities or services, and agrees to cooperate fully with Landlord to assure the most effective and energy efficient operation of the Property and shall not allow the adjustment (except by Landlord's authorized Property personnel) of any controls. Tenant shall not obstruct, alter or impair the efficient operation of the Systems and Equipment, and shall not place any item so as to interfere with air flow. Tenant shall keep corridor doors closed and shall not open any windows, except that if the air circulation shall not be in operation, windows which are openable may be opened with Landlord's consent. If reasonably requested by Landlord (and as a condition to claiming any deficiency in the air-conditioning or ventilation services provided by Landlord), Tenant shall close any blinds or drapes in the Premises to prevent or minimize direct sunlight.

(16) **Unattended Premises.** Before leaving the Premises unattended, Tenant shall close and securely lock all doors or other means of entry to the Premises and shut off all lights and water faucets in the Premises (except heat to the extent necessary to prevent the freezing or bursting of pipes).

(17) **Going-Out-Of-Business Sales and Auctions.** Tenant shall not use, or permit any other party to use, the Premises for any distress, fire, bankruptcy, close-out, "lost our lease" or going-out-of-business sale or auction. Tenant shall not display any signs advertising the foregoing anywhere in or about the Premises. This prohibition shall also apply to Tenant's creditors.

(18) **Labor Harmony.** Tenant shall not use (and upon notice from Landlord shall cease using) contractors, services, workmen, labor, materials or equipment, or labor and employment practices that, in Landlord's good faith judgment, may cause strikes, picketing or boycotts or disturb labor harmony with the workforce or trades engaged in performing other work, labor or services in or about the Property.

(19) **Prohibited Activities.** Tenant shall not: (i) use strobe or flashing lights in or on the Premises, (ii) install or operate any internal combustion engine, boiler, machinery, refrigerating, heating or air conditioning equipment in or about the Premises, (iii) use the Premises for housing, lodging or sleeping purposes or for the washing of clothes, (iv) place any radio or television antennae other than inside of the Premises, (v) operate or permit to be operated any musical or sound producing instrument or device which may be heard outside the Premises, (vi) use any source of power other than electricity, (vii) operate any electrical or other device from which may emanate electrical, electromagnetic, energy, microwave, radiation or other waves or fields which may interfere with or impair radio, television, microwave, or other broadcasting or reception from or in the Property or elsewhere, or impair or interfere with computers, faxes or telecommunication lines or equipment at the Property or elsewhere, or create a health hazard, (viii) bring or permit any bicycle or other vehicle, or dog (except in the company of a blind person or except where specifically permitted) or other animal or bird in the Premises or Building, (ix) make or permit objectionable noise, vibration or odor to emanate from the Premises, (x) do anything in or about the Premises or Property that is illegal, immoral, obscene, pornographic, or anything that may in Landlord's good faith opinion create or maintain a nuisance, cause physical damage to the Premises or Property, interfere with the normal operation of the Systems and Equipment, impair the appearance, character or reputation of the Premises or Property, create waste to the Premises or Property, cause demonstrations, protests, loitering, bomb threats or other events that may require evacuation of the Building, (xi) advertise or engage in any activities which violate any code of ethics or licensing requirements of any professional or business organization, (xii) throw or permit to be thrown or dropped any item from any window or other opening in the Property, (xiii) use the Premises for any purpose, or permit upon the Premises or Property anything, that may be dangerous to persons or property (including firearms or other weapons (whether or not licensed or used by security guards) or any explosive or combustible items or materials) (xiv) place vending or game machines in the Premises, except vending machines for employees which shall be at Tenant's sole cost and expense and only upon prior notice to and consent of Landlord, (xv) adversely affect the indoor air quality of the Premises or Property, (xvi) use the Premises for cooking or food preparation other than preparation of coffee, tea and similar beverages, or customary microwave use, for Tenant and its employees, or (xvii) do or permit anything to be done upon the Premises or Property in any way tending to disturb, bother, annoy or interfere with Landlord or any other tenant at the Property or the tenants of neighboring property, or otherwise disrupt orderly and quiet use and occupancy of the Property.

(20) **Transportation Management.** Tenant shall comply with all present or future programs intended to manage parking, transportation or traffic in and around the Property, and in connection therewith, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities.

(21) **Parking.** Subject to any contrary provisions of this Lease, if the Property now or hereafter contains, or Landlord has obtained the right to use for the Property, a parking garage, structure, facility or area, the following Rules shall apply therein:

(i) Parking shall be available in areas designated by Landlord from time to time, and for such daily or monthly charges as Landlord may establish from time to time. Parking for Tenant and its employees and visitors shall be on a "first come, first served," unassigned basis, in common with Landlord and other tenants at the Property, and their employees and visitors, and other Persons to whom Landlord shall grant the right or who shall otherwise have the right to use the same. However, in no event shall Tenant and Tenant's employees and visitors use more spaces than the number derived by applying Tenant's Pro Rata Share (as defined in the Lease) to the total number of unassigned spaces in the area or areas designated by Landlord from time to time to serve the Premises. In addition, Landlord reserves the right to: (x) adopt additional requirements or procedures pertaining to parking, including systems with charges favoring carpooling, and validation systems, (y) assign specific spaces, and reserve spaces for small and other size cars, disabled persons, and other tenants, customers of tenants or other parties, and (z) restrict or prohibit full size vans and other large vehicles.

(ii) Monthly fees shall be paid in advance prior to the first of each month. Failure to do so will automatically cancel parking privileges, and incur a charge at the posted daily parking rate. No deductions from the monthly rate will be made for days on which the Garage is not used by Tenant or its designees. In case of any violation of these rules, Landlord may also refuse to permit the violator to park, and may remove the vehicle owned or driven by the violator from the Property without liability whatsoever, at such violator's risk and expense. Landlord reserves the right to close all or a portion of the parking areas or facilities in order to make repairs or perform maintenance services, or to alter, modify, re-stripe or renovate the same, or if required by casualty, strike, condemnation, act of God, Law or governmental requirement or guideline, termination or modification of any lease or other agreement by which Landlord obtained parking rights, or any other reason beyond Landlord's reasonable control. In the event access is denied for any reason, any monthly parking charges shall be abated to the extent access is denied, as Tenant's sole recourse.

(iii) Hours shall be reasonably established by Landlord or its parking operator from time to time; cars must be parked entirely within the stall lines, and only small or other qualifying cars may be parked in areas reserved for such cars; all directional signs, arrows and speed limits must be observed; spaces reserved for disabled persons must be used only by vehicles properly designated; washing, waxing, cleaning or servicing of any vehicle is prohibited; every parker is required to park and lock his own car, except to the extent that Landlord adopts a valet parking system; parking is prohibited in areas: (a) not striped or designated for parking, (b) aisles, (c) where "no parking" signs are posted, (d) on ramps, and (e) loading areas and other specially designated areas. Delivery trucks and vehicles shall use only those areas designated therefor.

(iv) Parking stickers, key cards or any other devices or forms of identification or entry shall remain the property of Landlord. Such devices must be displayed as requested and may not be mutilated in any manner. The serial number of the parking identification device may not be obliterated. Devices are not transferable and any device in the possession of an unauthorized holder will be void. Loss or theft of parking identification, key cards or other such devices must be reported to Landlord or any garage manager immediately. Any parking devices reported lost or stolen which are found on any unauthorized car will be confiscated and the illegal holder will be subject to prosecution. Lost or stolen devices found by Tenant or its employees must be reported to Landlord or the office of the garage immediately.

(22) **Responsibility for Compliance.** Tenant shall be responsible for ensuring compliance with these Rules, as they may be amended, by Tenant's employees and as applicable, by Tenant's agents, invitees, contractors, subcontractors, and suppliers. Tenant shall cooperate with any reasonable program or requests by Landlord to monitor and enforce the Rules, including providing vehicle numbers and taking appropriate action against such of the foregoing parties who violate these provisions.

RIDER TWO

GREEN ADDENDUM

(1) The term "Green Standard" or words of similar import shall include the U.S. EPA's Energy Star® rating, the Green Building Initiative's Green Globes™ for Continual Improvement of Existing Buildings (Green Globes™-CIEB), the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED), and/or a current and similar organization with equally rigorous environmentally and sustainable practices.

(2) Building Expenses shall also include: (i) all costs of maintaining, managing, reporting, commissioning, and recommissioning the Building or any part thereof that was designed and/or upgraded to be sustainable and conform with one or more Green Standard rating systems, and (ii) all costs of applying, reporting and commissioning the Building or any part thereof to seek certification under one or more Green Standard rating systems, provided however, the cost of such applying, reporting and commissioning of the Building or any part thereof to seek certification shall be a cost capitalized and thereafter amortized as an annual Expense under GAAP.

(3) Tenant shall not use or occupy the Premises for any unlawful purpose or in any manner that will constitute waste, nuisance or unreasonable annoyance to Landlord or other tenants of the Building. Tenant shall not use or operate the Premises in any manner that will cause the Building or any part thereof not to conform with Landlord's sustainability practices or a Green Standard certification of the Building.

(4) This building is or may become in the future certified under a Green Standard or operated pursuant to Landlord's sustainable building practices. Landlord's sustainability practices address whole-building operations and maintenance issues including chemical use; indoor air quality; energy efficiency; water efficiency; recycling programs; exterior maintenance programs; and systems upgrades to meet green building energy, water, Indoor Air Quality, and lighting performance standards. All construction and maintenance methods and procedures, material purchases, and disposal of waste must be in compliance with minimum standards and specifications, in addition to all applicable laws.

(5) Tenant shall use proven energy and carbon reduction measures, including energy efficient bulbs in task lighting; use of lighting controls; closing shades as needed to avoid over heating the space; turning off lights and equipment at the end of the work day; purchasing ENERGY STAR® qualified equipment, including but not limited to lighting, office equipment, commercial and residential quality kitchen equipment, vending and ice machines, and; purchasing products certified by the U.S. EPA's Water Sense® program.

(6) Tenant covenants and agrees, at its sole cost and expense: (a) to comply with all present and future laws, orders and regulations of the Federal, State, county, municipal or other governing authorities, departments, commissions, agencies and boards regarding the collection, sorting, separation, and recycling of garbage, trash, rubbish and other refuse (collectively, "trash"); (b) to comply with Landlord's recycling policy as part of Landlord's sustainability practices where it may be more stringent than applicable law; (c) to sort and separate its trash and recycling into such categories as are provided by law or Landlord's sustainability practices; (d) that each separately sorted category of trash and recycling shall be placed in separate receptacles as directed by Landlord, and; (e) that Tenant shall pay all costs, expenses, fines, penalties or damages that may be imposed on Landlord or Tenant by reason of Tenant's failure to comply with the provisions of this Section. Where possible, the Landlord shall provide a composting program and encourage the Tenant to sort and separate its trash and recycling from compost material.

(7) Landlord shall provide and install all original bulbs and tubes for Building standard lighting fixtures within the Premises and all replacement tubes for such lighting, the cost of which shall be included in Building Expenses; all other bulbs, tubes and lighting fixtures for the Premises shall be provided and installed by Tenant at Tenant's cost and expense, and must comply with Landlord's sustainability practices, including any Green Standard rating system, concerning the environmental compliance of the Building or the Premises, as the same may change from time to time. All maintenance and repairs made by Tenant must comply with Landlord's sustainability practices, including any Green Standard rating system concerning the environmental compliance of the Building or the Premises, as the same may change from time to time.

(8) Any and all Tenant Improvement Work and/or Alterations is strongly encouraged to be performed in accordance with Landlord's sustainability practices, including any Green Standard or third-party rating system concerning the environmental compliance of the Building or the Premises, as the same may change from time to time. Tenant is further encouraged to engage a qualified third party LEED or Green Standard professional or similarly qualified professional during the design phase through implementation of any Tenant Improvement Work and/or Alterations to review all plans, material procurement, demolition, construction and waste management procedures to ensure they are in full conformance with Landlord's sustainability practices, as aforesaid. Any and all waste and debris from Tenant Improvement Work and/or Alterations must meet the minimum requirements set forth by the Green Standard.

(9) Landlord does not permit space heaters or other energy-intensive equipment unnecessary to conduct Tenant's business without written approval by Landlord. Any space conditioning equipment that is placed in the Premises for the purpose of increasing comfort to tenants shall be operated on sensors or timers that limit operation of equipment to hours of occupancy in the areas immediately adjacent to the occupying personnel.

(10) Tenant acknowledges that it is Landlord's intention that the Property be operated in a manner which is consistent with Landlord's sustainability practices. Tenant is required to comply with these practices within its Premises.

(11) Tenant shall dispose of, in an environmentally sustainable manner, any equipment, furnishings, or materials no longer needed by Tenant and shall recycle or re-use such items in accordance with Landlord's sustainability practices. Tenant is responsible for reporting this activity to Landlord in a format determined by Landlord.

(12) Landlord currently provides janitorial service only after 5:30 p.m. five days per week (excluding legal holidays). Landlord reserves the right to conduct routine cleaning during Normal Business Hours in accordance with Landlord's sustainability practices and will be done in such a way as to minimize disruption.

SUBSIDIARIES

As of September 30, 2017, the following were the Registrant's significant operating subsidiary:

Name: TransTech Systems, Inc.

Country of Organization: U.S.

Percent Ownership by Registrant: 100.0% by Visualant, Incorporated

SECTION 302 CERTIFICATIONS

I, Ronald P. Erickson, certify that:

1. I have reviewed this annual report on Form 10-K 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: December 29, 2017

/s/ Ronald P. Erickson
Ronald P. Erickson
Chief (Principal) Executive Officer

SECTION 302 CERTIFICATIONS

I, Ronald P. Erickson, certify that:

1. I have reviewed this annual report on Form 10-K 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.

/s/ Ronald P. Erickson
Interim Chief Financial Officer (Principal Accounting Officer)
December 29, 2017

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

In connection with the Annual Report of Visualant, Incorporated (the "Company") on Form 10-K for the year ended September 30, 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 (Principal) Executive Officer
December 29, 2017

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

In connection with the Annual Report of Visualant, Incorporated (the "Company") on Form 10-K for the year ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald P. Erickson, Interim 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/ Ronald P. Erickson
Interim Chief Financial Officer (Principal Accounting Officer)
December 29, 2017
