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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 333-116255

VIVID LEARNING SYSTEMS, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

42-1623500
(I.R.S. Employer Identification No.)

5728 Bedford Street
Pasco, WA 99301
(Address of principal executive offices, including zip code)

(509) 545-1800
(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, \$0.0001 par value	13,272,165
(Class)	Outstanding as of February 12, 2009

VIVID LEARNING SYSTEMS, INC.
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* No information provided due to inapplicability of the item.

PART I – FINANCIAL INFORMATION / ITEM 1 – FINANCIAL STATEMENTS

VIVID LEARNING SYSTEMS, INC. CONSOLIDATED BALANCE SHEETS

	December 31, 2008 (unaudited)	September 30, 2008
ASSETS		
CURRENT ASSETS		
Cash	\$ 457,896	\$ 132,391
Accounts and contracts receivable	1,276,066	972,151
Accounts and contracts receivable, Fluor Hanford	970	24,994
Prepaid expenses	214,142	185,793
Other current assets	165,262	138,214
TOTAL CURRENT ASSETS	2,114,336	1,453,543
PROPERTY, PLANT AND EQUIPMENT		
Property and equipment	1,604,379	1,583,630
Less: Accumulated depreciation	(1,275,577)	(1,247,676)
TOTAL PROPERTY, PLANT AND EQUIPMENT	328,802	335,954
OTHER ASSETS		
Software, net of amortization	1,253,517	1,229,722
Goodwill	375,000	375,000
Long-term contracts receivable	-	1,321
Deferred tax asset	551,118	665,596
TOTAL OTHER ASSETS	2,179,635	2,271,639
TOTAL ASSETS	\$ 4,622,773	\$ 4,061,136
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 122,623	\$ 120,807
Accrued contract labor	110,060	100,933
Other current liabilities	74,841	46,811
Unearned revenue	228,950	100,518
Notes payable, related parties	-	25,000
Current portion of long-term liabilities	208,881	108,341
TOTAL CURRENT LIABILITIES	745,355	502,410
LONG-TERM LIABILITIES		
Long-term debt	269,132	134,095
Other long-term liabilities	103,138	116,709
TOTAL LONG-TERM LIABILITIES	372,270	250,804
TOTAL LIABILITIES	1,117,625	753,214
COMMITMENTS AND CONTINGENCIES		
	-	-
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.0001 par value; 5,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.0001 par value; 200,000,000 shares authorized, 13,272,165 and 13,372,203 shares issued and outstanding, respectively	1,337	1,337
Additional paid-in capital	4,383,564	4,408,564
Accumulated deficit	(879,753)	(1,101,979)
TOTAL STOCKHOLDERS' EQUITY	3,505,148	3,307,922
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,622,773	\$ 4,061,136

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

VIVID LEARNING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended December 31, 2008 (unaudited)	Three Months Ended December 31, 2007 (unaudited)
REVENUES		
Training subscriptions	\$ 886,738	\$ 751,508
Training subscriptions, Fluor Hanford	139,709	138,332
Custom products and services	664,492	397,487
Custom products and services, Fluor Hanford	5,371	17,057
	<u>1,696,310</u>	<u>1,304,384</u>
COST OF REVENUES		
Training subscriptions	210,637	252,429
Custom products and services	431,214	295,449
	<u>641,851</u>	<u>547,878</u>
GROSS PROFIT	<u>1,054,459</u>	<u>756,506</u>
EXPENSES		
Marketing and related labor expenses	319,839	265,023
Bad debt expense	-	2,038
Reseller commissions	121,630	44,502
Depreciation and amortization	27,901	24,780
Wages and contract labor	105,387	114,981
Other operating expenses	134,495	102,284
TOTAL OPERATING EXPENSES	<u>709,252</u>	<u>553,608</u>
INCOME (LOSS) FROM OPERATIONS	<u>345,207</u>	<u>202,898</u>
OTHER INCOME (EXPENSE)		
Interest income	286	807
Interest expense	(8,789)	(6,289)
TOTAL OTHER INCOME (EXPENSE)	<u>(8,503)</u>	<u>(5,482)</u>
INCOME BEFORE INCOME TAXES	<u>336,704</u>	<u>197,416</u>
INCOME TAX EXPENSE	<u>114,478</u>	<u>67,096</u>
NET INCOME	<u>\$ 222,226</u>	<u>\$ 130,320</u>
BASIC NET INCOME PER COMMON SHARE	<u>\$ 0.02</u>	<u>\$ 0.01</u>
DILUTED NET INCOME PER COMMON SHARE	<u>\$ 0.02</u>	<u>\$ 0.01</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
BASIC	<u>13,297,440</u>	<u>13,372,165</u>
DILUTED	<u>13,297,440</u>	<u>13,372,165</u>

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

VIVID LEARNING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31, 2008 (unaudited)	Three Months Ended December 31, 2007 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 222,226	\$ 130,320
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	27,901	24,780
Amortization of capitalized software	68,424	68,424
Bad debt expense	-	2,038
Options issued for compensation	-	5,743
Changes in assets and liabilities:		
Accounts and contracts receivable	(279,891)	318,959
Prepaid expenses	(28,349)	(39,927)
Other current assets	(27,048)	(173,217)
Deferred tax asset	114,478	67,096
Accounts payable	1,816	(121,172)
Accrued contract labor and related expenses	9,127	(92,592)
Long-term receivable contracts	1,321	40,229
Other current liabilities	28,030	(16,192)
Unearned revenue	128,432	(42,702)
Net cash provided by operating activities	<u>266,467</u>	<u>171,787</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, equipment and intangible assets	(20,749)	(12,399)
Acquisition of software	(92,220)	(20,695)
Net cash used by investing activities	<u>(112,969)</u>	<u>(33,094)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable, related party	(25,000)	-
Treasury Stock	(25,000)	-
Payments on line of credit payable	-	(57,072)
Proceeds from term loan	250,000	-
Payments on long-term debt	(13,581)	(12,744)
Payments on long-term liabilities	(14,412)	(5,741)
Net cash provided (used) by financing activities	<u>172,007</u>	<u>(75,557)</u>
Net increase (decrease) in cash	325,505	63,136
Cash at beginning of period	<u>132,391</u>	<u>80,331</u>
Cash at end of period	<u>\$ 457,896</u>	<u>\$ 143,467</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 8,789</u>	<u>6,289</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
NON-CASH TRANSACTIONS:		
Options issued as compensation	\$ -	\$ 5,743

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

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – BUSINESS ORGANIZATION

Nature of Operations

Vivid Learning Systems, Inc. (hereinafter “Vivid Washington”) was incorporated in 1995 in the State of Washington under the name of Applied *Tecknowledgey*, Inc. and then later known as Vivid Concepts, Inc. Prior to December 23, 2003, Vivid Washington was a wholly owned subsidiary of Nuvotec, Inc., a technology commercialization corporation based in Washington State. On December 23, 2003, Nuvotec, Inc. exchanged all of its 7,000,000 common stock shares in Vivid Washington for 8,100,000 shares of common stock with a par value of \$0.0001 in a newly formed Delaware corporation also named Vivid Learning Systems, Inc. The Delaware company (the “Company” or “Vivid Delaware”) serves as the holding company and parent and sole shareholder of the operating entity Vivid Washington. An additional 1,987,996 shares of the Company’s common stock was issued in a private placement to approximately seventy individual shareholders at September 30, 2004.

Vivid Washington develops and provides computer-based training products and services, which are marketed nationally. Vivid Delaware and its subsidiaries, Vivid Washington and ImageWorks Digital Media, Inc., have a year end of September 30.

Nuvotec prior to June 13, 2007 held approximately 83% of the Company. On June 13, 2007, Nuvotec closed on an acquisition transaction wherein one of the conditions to closing was that the shares of the Company were to be distributed on a pro-rata basis to the Nuvotec shareholders according to the Agreement and Plan of Distribution. Due to rounding, 38 shares that had been held by Nuvotec were retired as treasury shares. The shares in common stock of the Company were distributed to approximately 300 individuals. The effective date of the transaction, June 13, 2007, resulted in the change of control of the Company. No individual who received the distribution from Nuvotec was given a controlling interest in the Company. There was no consideration as this was a Nuvotec shareholder tax-free distribution.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the period ended September 30, 2008 included in the Company’s annual report on Form 10-KSB/A which was filed with the SEC on December 30, 2008. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of interim results have been included. Operating results for the three months ended December 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2009. For further information, refer to the Company’s consolidated audited financial statements at September 30, 2008 and footnotes thereto.

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States and have been consistently applied in the preparation of the financial statements.

Recent Pronouncements

Hierarchy of Generally Accepted Accounting Principles

In May, 2008, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS No. 162). This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The sources of accounting principles¹ that are generally accepted are categorized in descending order of authority as follows:

- a. FASB Statements of Financial Accounting Standards and Interpretations, FASB Statement 133 Implementation Issues, FASB Staff Positions, and American Institute of Certified Public Accountants (AICPA) Accounting Research Bulletins and Accounting Principles Board Opinions that are not superseded by actions of the FASB
- b. FASB Technical Bulletins and, if cleared² by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position
- c. AICPA Accounting Standards Executive Committee Practice Bulletins that have been cleared by the FASB, consensus positions of the FASB Emerging Issues Task Force (EITF), and the Topics discussed in Appendix D of *EITF Abstracts* (EITF D-Topics)
- d. Implementation guides (Q&As) published by the FASB staff, AICPA Accounting Interpretations, AICPA Industry Audit and Accounting Guides and Statements of Position not cleared by the FASB, and practices that are widely recognized and prevalent either generally or in the industry.

The adoption of this statement will have no material effect on the Company's financial condition or results of operations.

Accounting Methods and Consolidation

The Company's financial statements are prepared using the accrual method of accounting. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, after elimination of inter-company accounts and transactions. The wholly owned subsidiaries of the Company are Vivid Washington and ImageWorks Media Group, Inc.

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share for Vivid includes no dilution and is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period.

Fair Value Measurement

On April 1, 2008, the Company adopted the provisions of SFAS No. 157 related to its financial assets and liabilities measured at fair value on a recurring basis. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to the Company's needs.

As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

There were no money market accounts or investments in equity securities requiring disclosure by level within the fair value of Company assets and liabilities measured and reported on the Consolidated Balance Sheet as of December 31, 2008 at fair value on a recurring basis.

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

On December 14, 2007 the FASB issued a proposed FASB staff position ("FSP") that would amend SFAS 157 to delay its effective date for all non-financial assets and non-financial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis, that is, at least annually. For items within the scope of the proposed FSP the effective date of SFAS 157 would be delayed to fiscal years beginning after November 15, 2008 (fiscal 2010 for the Company) and interim periods within those fiscal years. During February 2008, the FASB confirmed and made effective the FSP. The Company has chosen not to implement SFAS 157 for non-financial assets and non-financial liabilities at this time.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by Statement of Financial Accounting Standard No. 109 to allow recognition of such an asset.

Reclassifications

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the fiscal year 2009 presentation. The reclassifications have no effect on net assets, net revenues, or net earnings.

Reseller Commissions and Royalty Expenses

Reseller commissions are recorded as an expense if the cumulative affirmative impact of indicators of gross revenue reporting, as outlined in EITF 99-19, Indicators 7-14, are met by the Company in the transaction. The Company pays each of the channel partners a commission or a referral fee of between five and fifty percent of net revenue depending upon their annual sales levels and other criteria, which is recorded as a selling expense, strictly on a success basis as a result of selling the Company's products and services to third party customers. The Company has contractual arrangements with each of these partners that range from one to two years.

Expenses paid to resellers are recorded as a reduction of the underlying selling price if the cumulative affirmative impact of indicators of net revenue reporting, as outlined in EITF 99-19, Indicators 15-17 are present in the transaction. The Company does not provide any consideration to the resellers' end-users other than negotiated price discounts for subscriptions based on the size of the contract. Contract size is defined by the number of employees (seats), number of lessons, and length of the contract.

Royalty payments are recorded as an expense if the ownership of the training content does not reside with the Company.

Software Development Costs

Costs incurred for the internal development of software products and enhancements, after technological feasibility has been established for the related product, are capitalized and stated at the lower of cost or net realizable value. Amortization is provided based on the greater of the amount computed using: (a) the ratio that current gross revenues for a product bears to the total of current and anticipated future gross revenues for that product, or; (b) the straight-line method over the remaining estimated economic life of the product, not to exceed five years.

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Production costs incurred subsequent to the establishment of technological feasibility are capitalized. Also capitalized are the component costs incurred associated with the development of product templates in accordance with Statement of Financial Accounting Standards No. 86, which consist primarily of labor related costs. As revenue generation commences on specific training content, additional costs incurred are classified as maintenance expense, or customer marketing expense, in the period they are incurred. Hours expended and costs incurred by production personnel on lesson content development on a per lesson basis are maintained so that cost efficiency in software content development can be analyzed on lesson content by lesson content basis. Net realizable value of each course is determined by comparing the unamortized cost of each developed software course and the remaining available market (quantified by dollars) for that content in the industry in which Vivid Washington is selling the content. This unamortized software development cost is then aggregated by course and a grand total is compared to the total remaining available aggregate market for the content to determine if a write-down is required.

Software development costs consist of the following at the dates shown:

	December 31, 2008	September 30, 2008
Software development costs	\$ 3,846,783	\$ 3,754,564
Accumulated amortization	(2,593,266)	(2,524,842)
	<u>\$ 1,253,517</u>	<u>\$ 1,229,722</u>

The amount of software costs written down to net realizable value was zero during the three months ended December 31, 2008 and 2007, respectively.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Revenue and Cost Recognition

The Company's custom products and services contracts are contracted primarily on a fixed unit rate basis, with underlying hourly billing rates negotiated with the customer. The contract revenues are earned as hours are expended and reimbursable costs are incurred.

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Training revenues are recognized at the time of shipment of products or performance of contracted services. Products are shipped FOB shipping point. Training contracts may contain elements of both custom contract work (contracted services) and subscription arrangements (delivery of training products). Training subscription revenues are recorded when collection of the subscription is highly probable and no significant Company obligations remain after the product has been delivered. The Company defers revenue recognition on training contracts related to payments received during the current period for the portion of the subscription contract that extends into future periods. At December 31, 2008 no subscription contracts were paid in advance. In accordance with EITF 01-14, the Company's reimbursable costs are recorded as gross revenue, with the actual costs recorded as a direct cost.

The Company's internet sales are less than 0.5% of total revenue. Internet transactions are recorded as training subscriptions, with training delivered via the hosted web sites of Vivid Washington. Revenue is recorded when the training is delivered, when evidence of a persuasive arrangement exists, and when collection is reasonably assured.

The Company does not offer warranties or returns.

NOTE 3 – RELATED PARTY TRANSACTIONS

At December 31, 2008 and September 30, 2008, the current related party payables consisted of \$0 and \$25,000, respectively, of current amounts due to the former owners of ImageWorks.

NOTE 4 – STOCKHOLDERS' EQUITY

Preferred Stock

The Company has authorized 5,000,000 shares of \$0.0001 par value preferred stock, which may be issued in one or more series. The Company's Board of Directors is also authorized to determine or alter the rights, preferences, privileges, and restrictions granted to or imposed upon any series of preferred stock. At December 31 and September 30, 2008, no preferred stock has been issued by the Company.

On May 1, 2004, the Company acquired ImageWorks Digital Media Group, Inc. (ImageWorks) through a share exchange agreement with the former owners. The Company issued as part of the original acquisition 100,000 shares of the Company's common stock to the former owners of ImageWorks. The share exchange agreement provided that if said shares did not achieve a certain public market value as of May 24, 2008, the former owners would have the option to request a buyback of the shares from the Company. At the request of the former owners the share certificates were returned to the Company on October 24, 2008 as treasury stock in exchange for full payment of the buyback amount.

NOTE 5 – STOCK-BASED COMPENSATION

During the year ended September 30, 2007, 225,250 options vested which had been issued in 2004 and had a fair value of \$36,040. During the year ended September 30, 2008, 34,564 options vested which had been issued in 2004 and had a fair value of \$5,743.

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Options issued in 2004 and 2005 were originally valued at approximately \$0.16 per option using the Black-Scholes Option Price Calculation. As of September 30, 2008 a total of 323,511 of these options had vested and had a fair value of \$51,762. During the year ended September 30, 2008, 44,069 options vested which had been issued in 2005 and had a fair value of \$7,051. The following assumptions were made in estimating the fair value: risk-free interest is 3%, volatility is 0.3, and expected life is seven years.

During the year ended September 30, 2006, additional options totaling 153,606 were issued of which 65,939 vested and had a fair value of \$32,777. During the year ended September 30, 2007, 10,939 of these options vested and had a fair value of \$4,525. During the year ended September 30, 2008, a total of 10,939 of these options vested and had a fair value of \$4,525. The fair value of each option granted is estimated on the grant date using the Black-Scholes Option Price Calculation. The following assumptions were made in estimating the fair value: risk-free interest is 4.75%; volatility is 101.36%; expected life is three to six years, and with no effective dividend yield.

During the year ended September 30, 2007, additional options totaling 89,500 were issued and had a fair value of \$19,730. During the year ended September 30, 2008, a total of 29,333 of these options vested and had a fair value of \$6,770. The assumptions made in estimating the fair value included an annual risk-free interest rate of 4.75%, volatility of 101.11%, expected life of six years, and with no effective dividend yield.

During the year ended September 30, 2008, additional options totaling 69,740 were issued and had a fair value of \$6,734. During the year ended September 30, 2008, none of these options vested. The assumptions made in estimating the fair value included an annual risk-free interest rate of 4.75%, volatility of 39.32%, expected life of six years, and with no effective dividend yield.

None of the issued options expired or vested during the three months ended December 31, 2008.

The following is a summary of stock option activity:

Equity compensation plans approved by shareholders	Number of shares to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of shares remaining available for future issuance under equity compensation plans
2003 Stock Option Plan	581,638	\$ 0.33	1,734,862

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

	Number of Shares	Weighted Average Exercise Price
Outstanding at October 1, 2006	570,940	\$ 0.33
Granted	89,500	0.29
Exercised	(125)	0.25
Expired or terminated	(144,417)	0.25
Outstanding at September 30, 2007	<u>515,898</u>	<u>\$ 0.34</u>
Options exercisable at September 30, 2007	<u>304,265</u>	<u>\$ 0.33</u>
Outstanding at October 1, 2007	515,898	\$ 0.34
Granted	69,740	0.23
Exercised	-	-
Expired or terminated	(4,000)	0.29
Outstanding at September 30, 2008	<u>581,638</u>	<u>\$ 0.33</u>
Options exercisable at September 30, 2008	<u>382,128</u>	<u>\$ 0.31</u>
Outstanding at October 1, 2008	581,638	\$ 0.33
Granted	-	-
Exercised	-	-
Expired or terminated	-	-
Outstanding at December 31, 2008	<u>581,638</u>	<u>\$ 0.33</u>
Options exercisable at December 31, 2008	<u>382,128</u>	<u>\$ 0.31</u>

NOTE 6 – ECONOMIC DEPENDENCY

The Company provides services in Washington State to a dozen large corporate contractors within the framework of a diverse set of programs and tasks. Most of the funding for these services originates from the Department of Energy / Federal Government. During the three months ended December 31, 2008 and 2007, services provided to these contractors aggregated \$224,444 and \$213,084, representing 13% and 16% of total revenue, respectively.

At December 31, 2008 and 2007, amounts due from these contractors are included in accounts receivable in the amounts of \$37,085 and \$44,349, respectively.

The Company's concentration risks for customer revenues and accounts receivable greater than 10% of the total account balances for the respective periods are as follows:

	Three Months Ending December 31,	
	2008	2007
Revenues—Fluor Hanford	\$ 145,079	\$ 155,389
Accounts Receivable Fluor Hanford	\$ 970	\$ 5,276
Revenues—Key Technology	\$ 288,613	\$ -
Accounts Receivable Key Technology	\$ 116,409	\$ -

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 – COMMITMENTS AND CONTINGENCIES

Commitments

The Company is obligated, under separate agreements, to make royalty payments based on varying percentages (8% to 25%) of cash collections from the sale of specific software applications. For the three months ending December 31, 2008 and 2007, the Company incurred \$20,283 and \$10,490 in royalty obligations, respectively, which are recorded in marketing expense. At December 31, 2008 and 2007, there were no incurred royalty obligations to be accrued and recorded in other current liabilities on the balance sheet.

NOTE 8 – BANK FINANCING

The Company secured a line of credit facility on December 22, 2008 with Wells Fargo Bank, N.A. The line has a maximum credit facility of \$250,000 and an initial annual interest rate of 4.25%. The rate is a variable rate tied to the bank's prime rate plus one, and is subject to an annual pricing adjustment. The availability period is subject to renewal on January 10, 2010. The previous line of credit facility with Bank of the West has been paid in full and is no longer in effect. The Company offers its assets as collateral as described in an executed commercial security agreement.

The Company secured a \$250,000 promissory note on December 22, 2008 with Wells Fargo Bank, N.A. The term of the note is two years payable monthly at \$11,079 starting February 10, 2009 including annual interest of 5.9%. The final payment on the note is January 10, 2011. The Company offers its assets as collateral as described in an executed commercial security agreement.

NOTE 9 – SEGMENT INFORMATION

The Company has two operating segments at December 31, 2008: training subscriptions and custom products and services.

Separate management of each segment is required because each business unit is subject to different marketing, production, and technology strategies. Training subscriptions derives revenues from the sale of computer-based safety training products and services throughout the United States. The custom products and services segment derives its revenues from custom products and services designed specifically for the end user.

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Segment information (after inter-company eliminations) for the three months ended December 31, 2008 and 2007 is as follows:

	December 31, 2008	December 31, 2007
Revenues:		
Training subscriptions	\$ 1,026,447	\$ 889,840
Custom products and services	669,863	414,544
Total Revenues	\$ 1,696,310	\$ 1,304,384
Cost of Revenues:		
Training subscriptions	\$ 210,637	\$ 252,429
Custom products and services	431,214	295,449
Total Cost of Revenues	\$ 641,851	\$ 547,878
Gross Profit:		
Training subscriptions	\$ 815,810	\$ 637,411
Custom products and services	238,649	119,095
Total Gross Profit	\$ 1,054,459	\$ 756,506
Operating Expenses:		
Training subscriptions	\$ 367,502	\$ 259,666
Custom products and services	91,876	64,917
Corporate	258,377	234,507
Total Operating Expenses	\$ 717,755	\$ 559,090
Income (Loss) before Income Taxes		
Training subscriptions	\$ 448,308	\$ 377,745
Custom products and services	146,773	54,178
Corporate	(258,377)	(234,507)
Total Income (Loss) before Income Taxes	\$ 336,704	\$ 197,416
	December 31, 2008	December 31, 2007
Identifiable assets:		
Training subscriptions	\$ 1,253,517	\$ 1,280,695
Custom products and services	423,196	322,347
Corporate	2,946,060	2,750,655
Total Identifiable Assets	\$ 4,622,773	\$ 4,353,697
Depreciation and amortization:		
Training subscriptions	\$ 68,424	\$ 68,424
Custom products and services	9,406	7,538
Corporate	18,495	17,242
Total Depreciation and Amortization	\$ 96,325	\$ 93,204

VIVID LEARNING SYSTEMS, INC.
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

NOTE 10 – INCOME TAXES

During the three months ended December 31, 2008, the Company realized a profit before income taxes of \$336,704. As a result, the Company has recognized \$114,478 of federal income tax expense, calculated at a rate of approximately 34%, and a decrease in its deferred tax asset for this same amount. The Company's deferred tax asset at December 31, 2008 principally consists of the prospective income tax benefit (at 34%) of net operating losses in 2005, 2006, and 2007.

NOTE 11 – SUBSEQUENT EVENT

The Company formerly leased all of its employees, via a professional employer organization (PEO) from HRnovations, Inc., which was formerly co-owned and managed by a member of Vivid's Board of Directors. HRnovations, Inc. provided payroll processing services and benefits administration for the Company. The Company was also part of a multi-employer 401K plan, which was administered by HRnovations, Inc.

Effective January 1, 2009, the Company no longer utilizes a PEO for leased employee services, and employs its own contractors to assist in the processing of payroll and administration of benefits for its employees. The Company also sponsors its own 401K plan, which utilizes the same investment advisor, Benefits Acceptance Corporation of Bellevue, Washington. Effective January 1, 2009, plan assets were transferred to the Company plan with the identical features and services of the previous plan.

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations:

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2008 COMPARED WITH THREE MONTHS ENDED DECEMBER 31, 2007

Revenues

Overall revenues increased 30% to \$1,696,310 in the first quarter of fiscal year 2009 from \$1,304,384 in the first quarter of fiscal year 2008. The increase was due to the acquisition of substantial new contracts within the Custom Products and Services segment combined with increasing revenue volume within the Training Subscriptions segment in the fiscal quarter ending December 31, 2008 compared to the fiscal quarter ending December 31, 2007.

Training subscription revenues increased by 15% to \$1,026,447 in the first quarter of fiscal year 2009 from \$889,840 in the first quarter of fiscal year 2008 due to the addition of new subscription customers and consistent year over year subscription renewals.

Custom Products and Services revenues increased by 62% to \$669,863 during the first quarter of fiscal year 2009 from \$414,544 during the first quarter of fiscal year 2008. The large increase is attributable to the acquisition of large new custom contracts combined with the timely completion of custom projects and related revenues generated within this business segment.

Operating Expenses

Cost of Revenues:

Overall, cost of revenues increased to \$641,851 in the first quarter of fiscal year 2009 from \$547,878 in the first quarter of fiscal year 2008. The increase is due to increasing revenue volumes in both business segments in the quarter ending December 31, 2008 compared to the quarter ending December 31, 2007. The gross profit margin achieved on total revenues increased to 62% from 58% in comparing the first quarter of fiscal year 2009 to the first quarter of fiscal year 2008. The increase reflects a higher incremental gross profit realized on increasing revenue volumes which provide excess cost coverage.

Training subscription cost of revenues decreased by 17% to \$210,637 in the first quarter of fiscal year 2009 from \$252,429 in the first quarter of fiscal year 2008. This decrease is attributable to efficiencies realized in production management of direct costs and similar levels of fixed indirect costs within this business segment in the quarter ending December 31, 2008 compared to the quarter ending December 31, 2007.

Custom products and services cost of revenues increased by 46% to \$431,214 in the first quarter of fiscal year 2009 from \$295,449 in the first quarter of fiscal year 2008. The increase is due to significantly higher revenue volumes and related direct costs from new custom contracts in the Custom Products and Services business segment in the first quarter of fiscal year 2009 compared to the first quarter of fiscal year 2008.

Marketing and Related Labor Expenses:

Marketing and related labor expenses increased by 21% to \$319,839 in the first quarter of fiscal year 2009 from \$265,023 in the first quarter of fiscal year 2008. The reasons for the increase are due to increased marketing labor costs related to higher revenues and royalty fees on revenue generated from third party content.

Reseller Commissions:

Reseller commissions increased to \$121,630 in the first quarter of fiscal year 2009 from \$44,502 in the first quarter of fiscal year 2008. The increase is attributable directly to the timing of training subscription revenues generated from external sales resources during the fiscal quarter as compared to the same quarter in the previous fiscal year.

Depreciation and Amortization:

Depreciation and Amortization increased to \$27,901 in the first quarter of fiscal year 2009 compared to \$24,780 in the first quarter of fiscal year 2008. The increase in depreciation is attributable to an increase in fixed assets purchased in the comparison of the two fiscal quarters.

General and Administrative Expenses:

General and Administrative expenses increased by 10% to \$239,882 in the first quarter of fiscal year 2009 from \$217,265 in the first quarter of fiscal year 2008. Labor related expenses decreased by 8% to \$105,387 during the fiscal quarter from \$114,981 in the same fiscal quarter of one year ago. The decrease is attributable to labor cost efficiencies and reductions within administrative staff. Non-labor related administrative expenses increased by 31% to \$134,495 during the fiscal quarter from \$102,284 in the same fiscal quarter of one year ago. The increase is primarily attributable to office related expenses.

Income from Operations:

Income from Operations increased by \$142,309 to \$345,207 in the first quarter of fiscal year 2009 from \$202,898 in the first quarter of fiscal year 2008. The increase is due principally to an increase in the gross profit margin partially offset by increases in operating expenses incurred during the quarter ending December 31, 2008 as compared to the quarter ending December 31, 2007.

Other Income (Expense):

The increase in Other Expenses is attributable to a slight increase in interest expense in the first quarter of the current fiscal year resulting from the increase in capital equipment financing. Interest expense on debt was \$8,789 in the quarter ended December 31, 2008 compared to \$6,289 in the quarter ended December 31, 2007.

Net Income

The operation generated Net Income of \$222,226 in the first quarter of fiscal year 2009 compared to \$130,320 in the first quarter of fiscal year 2008. The increase in net income of \$91,906 is due to higher Training Subscription and Custom Products and Services revenues partially offset by increases in operating and income tax expenses during the first fiscal quarter in the current year compared to the same period in the previous year.

Seasonality and Other Factors Affecting Quarterly Results

We expect quarterly fluctuations in operating results due to many factors including acquisitions and roll-out of new product offerings. The operating results for any quarter are not necessarily indicative of the results for any future period.

Liquidity and Capital Resources

As of December 31, 2008 the Company had cash of \$457,896 compared to \$132,391 as of December 31, 2007. The Company's current ratio is 2.84 as of December 31, 2008 compared to 2.89 at the audit date of September 30, 2008.

Cash flows provided by operating activities amounted to \$266,467 in the first quarter of fiscal year 2009 compared to cash flows provided by operating activities of \$171,787 in the first quarter of fiscal year 2008. The increase is attributable to net income generated by the operation.

Cash flows used in investing activities amounted to \$112,969 in the first quarter of fiscal year 2009 compared to \$33,094 in the first quarter of fiscal year 2008. The increase is attributable to increased cost expenditures for software development and acquisitions of property and equipment.

Cash flows provided by financing activities amounted to \$172,007 in the first quarter of fiscal year 2009 compared to cash flows used in financing activities of \$75,557 in the first quarter of fiscal year 2008. The increase in cash flows provided by financing activities is attributable to proceeds from term loan financing partially offset by payment requirements for notes payable related party indebtedness and by debt service payments for long-term liabilities.

ITEM 4T – CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) as of the end of the three month period ended December 31, 2008. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our controls and procedures are effective in providing reasonable assurance that the information required to be disclosed in this report is accurate and complete and has been recorded, processed, summarized and reported within the time period required for the filing of this report. Subsequent to the date of this evaluation, there have not been any significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls.

PART II – OTHER INFORMATION

ITEM 6 – EXHIBITS

Exhibit No.	Description
31.1	302 Certification of Matthew J. Hammer, Chief Executive Officer
31.2	302 Certification of Robert M. Blodgett, Chief Financial Officer
32.1	906 Certification of Matthew J. Hammer, Chief Executive Officer
32.2	906 Certification of Robert M. Blodgett, Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 12, 2009

Vivid Learning Systems, Inc.

By: /s/ Matthew J. Hammer
Matthew J. Hammer
Chief Executive Officer

(Principal Executive
Officer and duly
authorized to sign on
behalf of the Registrant)

CERTIFICATIONS

EXHIBIT 31.1

I, Matthew J. Hammer certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vivid Learning Systems, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 quarterly 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 officers 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 registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weakness 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.

Dated: February 12, 2009

/s/ Matthew J. Hammer
Matthew J. Hammer
Chief Executive Officer

CERTIFICATIONS

EXHIBIT 31.2

I, Robert M. Blodgett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vivid Learning Systems, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 quarterly 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 officers 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 registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weakness 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.

Dated: February 12, 2009

/s/ Robert M. Blodgett
Robert M. Blodgett
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Vivid Learning Systems, Inc. (the "Company") for the quarter ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew J. Hammer, 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, that, to the best of my knowledge:

- (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.

Dated: February 12, 2009

/s/ Matthew J. Hammer

Matthew J. Hammer
Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-Q of Vivid Learning Systems, Inc. (the "Company") for the quarter ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert M. Blodgett, 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, that, to the best of my knowledge:

- (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 respect, the financial condition and result of operations of the Company.

Dated: February 12, 2009

/s/ Robert M. Blodgett

Robert M. Blodgett
Chief Financial Officer

This fax cover sheet is NOT part of the official filing and is meant as a courtesy only. Please disregard this page if you plan to submit changes via email. Email is the preferred method for submitting changes.

Fax Cover Sheet

To:	Shawn Aruch	From:	
Fax:	646-349-9655	Phone:	
Phone:	(212) 201-7038	Pages:	
Project:	v139989	Form Type:	10-Q
Client:	Vivid Learning Systems, Inc		

Comments: