

DESTINY MEDIA TECHNOLOGIES INC
Form 10-Q
July 14, 2009

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

FORM 10-Q

(Mark One)

**(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the nine months ended May 31, 2009

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: 0-028259

DESTINY MEDIA TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

COLORADO

(State or other jurisdiction of
incorporation or organization)

84-1516745

(IRS Employer Identification No.)

**800 - 570 Granville Street, Vancouver,
British Columbia Canada V6C 3P1**

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: **(604) 609-7736**

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 past 12 months and (2) has been subject to the above filing requirements for the past 90 days.

Yes X 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. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: DESTINY MEDIA TECHNOLOGIES INC - Form 10-Q

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

(Do not check if a smaller
reporting company)

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 ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
51,723,647 Shares of \$0.001 par value common stock outstanding as of May 31, 2009.

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

Consolidated Financial Statements

Destiny Media Technologies Inc.

(Unaudited)

Nine months ended May 31, 2009

F-1

Destiny Media Technologies Inc.

CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

[See Note 2 - Basis of Presentation]

Unaudited

As at

	May 31, 2009 \$	August 31, 2008 \$
ASSETS		
Current		
Cash	150,684	91,369
Accounts and other receivables, net of allowance for doubtful accounts of \$2,289 [August 31, 2008 - \$56,365]	410,637	336,734
Prepaid expenses	77,603	73,171
Total current assets	638,924	501,274
Deposits	47,620	48,863
Property and equipment, net of accumulated amortization of \$326,065 [August 31, 2008 - \$305,597]	120,702	111,300
Deferred commission costs	16,645	
Total assets	823,891	661,437
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable	480,268	382,606
Accrued liabilities	193,201	245,977
Shareholder loan payable [note 5]	68,662	44,152
Current portion of obligation under capital lease [note 4]	9,115	
Deferred revenue	13,645	21,311
Total current liabilities	764,891	694,046
Deferred revenue	18,310	
Obligation for share settlement		100,000
Long term portion of obligation under capital lease [note 4]	16,413	
Total liabilities	799,614	794,046
Commitments and contingencies [note 4 and 7]		
Stockholders' equity		
Common stock, par value \$0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 51,723,647 shares		
[August 31, 2008 - 51,090,314 shares]	51,725	51,092
Additional paid-in capital	9,443,787	9,208,131
Deficit	(9,590,389)	(9,511,445)
Accumulated other comprehensive income	119,154	119,613
Total stockholders' equity	24,277	(132,609)
Total liabilities and stockholders' equity	823,891	661,437

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Expressed in United States dollars)

Unaudited

	Three Months Ended May 31, 2009 \$	Three Months Ended May 31, 2008 \$	Nine Months Ended May 31, 2009 \$	Nine Months Ended May 31, 2008 \$
Revenue <i>[note 9]</i>	665,829	369,098	1,687,878	1,085,555
Operating expenses				
General and administrative	181,749	206,646	540,654	838,385
Sales and marketing	193,044	323,330	634,256	1,244,920
Research and development	206,559	335,540	652,823	1,120,829
Amortization	10,675	11,781	27,407	33,326
	592,027	877,297	1,855,140	3,237,460
Income (loss) from operations	73,802	(508,199)	(167,262)	(2,151,905)
Other income (expenses)				
Other income	12,755	31,384	72,877	73,499
Interest income	1,858	492	2,964	15,451
Interest and other expense	(942)	(9,237)	(2,531)	(18,480)
Gain on settlement of debt	15,008		15,008	
Net income (loss)	102,481	(485,560)	(78,944)	(2,081,435)
Net income (loss) per common share,				
basic and diluted		(0.01)		(0.04)
Weighted average common shares				
outstanding, basic and diluted	51,638,140	50,027,866	51,445,259	49,985,729

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS EQUITY

(Expressed in United States dollars)

Unaudited

	Common stock		Additional		Accumulated	Total
	Shares	Amount	paid-in	Deficit	other	stockholders
	#	\$	capital	\$	comprehensive	equity
			\$	\$	income	\$
Balance, August 31, 2008	51,090,314	51,092	9,208,131	(9,511,445)	119,613	(132,609)
Net loss				(78,944)		(78,944)
Foreign currency translation gain (loss)					(459)	(459)
Comprehensive loss						(79,403)
Common stock issued on options exercised	500,000	500	99,500			100,000
Common stock issued on share settlement	133,333	133	99,867			100,000
Stock based compensation			36,289			36,289
Balance, May 31, 2009	51,723,647	51,725	9,443,787	(9,590,389)	119,154	24,277
<i>See accompanying notes</i>						

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

Unaudited

	Nine Months Ended May 31, 2009 \$	Nine Months Ended May 31, 2008 \$
OPERATING ACTIVITIES		
Net loss for the period	(78,944)	(2,081,435)
Items not involving cash:		
Amortization	27,407	33,326
Stock-based compensation	36,289	181,953
Loss on disposal of capital assets	2,187	
Gain on settlement of debt	(15,008)	
Changes in non-cash working capital:		
Accounts and other receivables	(75,094)	8,796
Prepaid expenses	(5,731)	48,617
Accounts payable and accrued liabilities	84,966	268,990
Deferred revenue	(14,197)	(3,157)
Net cash used in operating activities	(38,125)	(1,542,910)
INVESTING ACTIVITIES		
Deferred commission costs	(15,156)	
Purchase of equipment	(3,124)	(44,921)
Proceeds on disposition of capital assets		1,060
Net cash used in investing activities	(18,280)	(43,861)
FINANCING ACTIVITIES		
Repayments on capital lease obligations	(3,776)	
Proceeds from issuance of common stock		258,775
Proceeds from exercise of stock options	100,000	41,200
Proceeds of shareholder loans	191,976	134,032
Repayments of shareholder loans	(168,635)	
Net cash provided by financing activities	119,565	434,007
Effect of foreign exchange rate changes on cash	(3,845)	79,240
Net increase (decrease) in cash	59,315	(1,073,524)
Cash, beginning of period	91,369	1,215,183
Cash, end of period	150,684	141,659
Supplementary disclosure		
Cash paid for interest	2,531	13,480
Non-cash investing activity		
Property and equipment acquired under capital lease	27,197	

See accompanying notes

F-5

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

1. ORGANIZATION

Destiny Media Technologies Inc. (the Company) was incorporated in August 1998 under the laws of the State of Colorado. The Company develops technologies that allow for the distribution over the Internet of digital media files in either a streaming or digital download format. The technologies are proprietary. The Company operates out of Vancouver, BC, Canada and serves customers predominantly located in the United States and Canada.

2. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with accounting principles (GAAP) generally accepted in the United States for interim financial information and in accordance with Item 310(b) of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States GAAP for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months period ended May 31, 2009 are not necessarily indicative of the results that may be expected for the year ended August 31, 2009.

The balance sheet at August 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States GAAP for annual financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB/A for the year ended August 31, 2008.

The financial statements have been prepared by management in accordance with United States GAAP on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company realized income during the quarter ending May 31, 2009 of \$102,481, and positive cash flows from operations of \$93,082 continuing the trend of increasing revenue through the expanded use of its Play MPE™ system. During the nine months ending May 31, 2009, the Company continued to grow the use of the Play MPE™ system in North America and around the world with agreements announced by Warner Music Group and Universal Music Group respectively. Management expects this trend of growing profits and positive cash flow to continue. However, to date, the quarterly income and positive cash flow has not eliminated the working capital deficit of \$125,967 as at May 31, 2009, that raise doubt about its ability to continue as a going concern.

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

2. BASIS OF PRESENTATION (cont d.)

Thus, the Company intends to fund its working capital deficiency through cash flows from operations. There are no assurances that the Company will be successful in achieving these goals.

In view of these conditions, the ability of the Company to continue as a going concern is not certain. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

3. SHARE CAPITAL

[a] Issued and Authorized

The Company is authorized to issue up to 100,000,000 shares of common stock, par value \$0.001 per share.

During the nine months ended May 31, 2009, 500,000 stock options were exercised for cash proceeds of \$100,000. 133,333 previously issued common shares were released from treasury to settle an incomplete private placement between the Company and parties involved in the August 2000 private placement.

[b] Stock option plans

The Company had previously reserved a total of 8,850,000 common shares for issuance under its existing stock option plans, of which, 1,365,334 remain available for future option issuance. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

F-7

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

3. SHARE CAPITAL (cont d.)*Stock-based Payment Award Activity*

A summary of option activity under the Plans as of May 31, 2009, and changes during the nine months period ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value \$
Outstanding at August 31, 2008	4,339,000	0.48	2.83	179,850
Granted	550,000	0.23		
Exercised	(500,000)	(0.20)		
Expired	(999,000)	(0.41)		
Outstanding at May 31, 2009	3,390,000	0.48	2.38	7,350
Vested and exercisable at May 31, 2009	3,340,000	0.48	2.36	7,038

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at May 31, 2009.

As FAS123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation expense for the three months ended May 31, 2009 has considerations for estimated forfeitures. When estimating forfeitures, the Company considers voluntary termination behavior as well as trends of actual option forfeitures.

During the nine months ended May 31, 2009, 150,000 options were repriced from \$0.95 to \$0.50 and the unvested options became vested at the date of repricing, which resulted in incremental compensation cost of \$5,588. Total stock-based compensation expense related to employees of \$36,289 is reported in the statement of operations as follows:

	Three Months Ended		Nine Months Ended	
	May 31 2009	May 31 2008	May 31 2009	May 31 2008
	\$	\$	\$	\$
Stock-based compensation:				
General and administrative	702	3,927	10,734	41,396
Sales and marketing	259	7,056	12,593	85,215
Research and development	487	8,766	12,962	55,342
Total stock-based compensation	1,448	19,749	36,289	181,953

F-8

Destiny Media Technologies Inc.**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

3. SHARE CAPITAL (cont d.)*Valuation Assumptions*

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

	Three Months Ended		Nine Months Ended	
	May 31 2009	May 31 2008	May 31 2009	May 31 2008
Expected term of stock options (years)		2.5	1.6-2.5	2.5
Expected volatility		92%	88%-96%	85%-92%
Risk-free interest rate		2.31%	0.9%-1%	2.31%-4.51%
Dividend yield				

Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the options is based on US Treasury bill rates in effect at the time of grant.

The weighted-average grant-date fair value of options granted during the nine-month periods ended May 31, 2009 and 2008 was \$0.01 and \$0.31, respectively.

As of May 31, 2009 there was \$933 of unrecognized stock-based compensation cost related to employee stock options granted under the plans, which is expected to be fully recognized over the next 1- 18 months.

F-9

Destiny Media Technologies Inc.**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

3. SHARE CAPITAL (cont d.)**[c] Warrants**

As at May 31, 2009, the Company has the following common shares warrants outstanding:

	Number of Common Shares Issuable	Exercise Price \$	Date of Expiry
\$0.22 Warrants	950,000	0.22	August 25, 2011
\$0.40 Warrants	361,000	0.40	February 28, 2012
\$0.50 Warrants	5,886	0.50	January 31, 2010
\$0.50 Warrants	5,800,000	0.50	February 28, 2012
\$0.60 Warrants	235,250	0.60	November 30, 2009
\$0.70 Warrants	500,000	0.70	April 9, 2012
	7,852,136		

5,400,000 of the \$0.50 warrants have a forced conversion feature by which the Company can demand exercise of the share purchase warrants if the common shares trades at a price equal to or greater than \$1.25 if certain conditions are met.

All of the \$0.60 warrants have a forced conversion feature by which the Company can demand exercise of the share purchase warrants if the common shares trades at a price equal to or greater than \$0.80 if certain conditions are met.

F-10

Destiny Media Technologies Inc.**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

4. COMMITMENTS

The Company is committed to payments under its premises lease, which expires on August 30, 2010 as follows:

\$

2009	30,829
2010	258,163
	288,992

The Company has entered into sublease agreements to offset the cost commitments above. All sublease income has been reported in other income in the statement of operations and has not been reflected in the amounts disclosed above.

Commencing this quarter, The Company is committed to make payments under its capital leases for 3 years terms as follows:

\$

2009	2,852
2010	11,407
2011	11,407
2012	3,710
Total lease payments	29,376
Less: Amounts representing interest	(3,848)
Balance of obligation	25,528
Less: Current portion	(9,115)
Long term portion	16,413

5. RELATED PARTY TRANSACTIONS

The Company entered into a sublease agreement with a Director effective January 1, 2009 on a month-to-month basis with a two month notice period. The term of the sublease calls for committed monthly payments of \$1,500 CDN.

During the nine months ended May 31, 2009, the Company received various loans totaling \$191,976(CDN\$230,300) from officers of the Company. Of which, \$129,457(CDN\$155,300) loans bear interest at 5.5% per annum, are unsecured and due on demand; \$62,519(CDN\$75,000) loans bear interest at 7% and due on May 29, 2010. During the nine months ended May 31, 2009, the company repaid \$168,635(CDN\$202,300). As at May 31, 2009, the balance of \$62,519(CDN\$75,000) is due to the Company's Chief Financial Officer bearing interest at 7% per annum. It is due May 29, 2010.

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

6. INCOME TAX

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), on September 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company and its subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well as income tax of multiple state and local jurisdictions. Based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for the tax years ended August 31, 1999 through August 31, 2008, the tax years which remain subject to examination by major tax jurisdictions as of May 31, 2009. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

7. CONTINGENCIES

On March 7, 2006, the Company filed a statement of claim in the Federal Court of Canada against Yangaroo Inc. (formerly Musicrypt Inc.) (the Defendant) to assert that the Company's technology does not infringe on the stated patent owned by the Defendant and to further declare that Defendant's patent is invalid. This statement of claim was initiated by the Company as a result of the Defendant's statements to the contrary. On June 7, 2006, the Company's counsel received a statement of defense and counterclaim from the defendant, requesting specified damages or audited Canadian profits from the Play MPE® system if it is offered in Canada.

On January 11, 2007, the Federal Court of Canada issued a bifurcation order of the issues included in the action. Accordingly, only the issues of infringement and validity of the patent raised in the claim will be addressed in the current proceeding. The remaining issues including the counterclaim for specified damages will be the subject of a separate determination to be conducted after the trial if it then appears that such issues need to be decided.

On May 3, 2007, the Company filed a statement of claim in Ontario Superior Court for damages against the Defendant (Yangaroo Inc.), and executives of the Defendant, John Heaven and Clifford Hunt (collectively the Defendants) in the amount of \$25,000,000 caused by the Defendants making statements constituting defamation and injurious falsehood, making false or misleading

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

7. CONTINGENCIES (cont d.)

statements tending to discredit the business, making false or misleading representations contrary to the Competition Act of Canada, and unlawful interference with the Company's economic relations. The statement further requests an injunction from continuing the actions instigating the statement of claim.

On June 7, 2007, the Defendant filed a statement of defense, denying the allegations set out in the statement of claim dated May 3, 2007, and counterclaim against the Company and its Chief Executive Officer, Steve Vestergaard, also in the amount of \$25,000,000, for making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act, and unlawful interference with the Defendant's economic relations. The Company further requests an injunction from continuing the defamatory actions.

The amount of damages awarded to either party, if any, in relation to the statement of claim or counterclaim cannot be reasonably estimated and no amount has been recognized in the financial statements. Management believes that all of the Defendants claims are without merit and it is unlikely that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

On May 12, 2009, the Company was served with a statement of claim in the United States District Court for the Eastern District of Wisconsin alleging that Destiny Software Productions, Inc., Destiny Media Technologies, Inc. and MPE Distribution, Inc. infringed on USPTO patent number 7,529,712 owned by Yangaroo, Inc. The Company believes this claim is without merit and on June 22, 2009 filed a motion to dismiss the claim pursuant to rule 12(b)(6), FED. R. CIV. P. AND CIVIL L.R. 7.1

On February 19, 2009, the Company received a Statement of Claim in the Court of Queen's Bench of Alberta on behalf of a former employee living in Mexico. The claim was for approximately \$133,000 plus unspecified damages and 385,833 stock options. On June 19, 2009, the plaintiff filed a discontinuance of action and the matter is no longer before the courts.

F-13

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

8. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . SFAS 162 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 in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles . The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment to FASB Statement No. 133 . SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

F-14

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

8. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS (cont d.)

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. This statement replaces SFAS 141 and defines the acquirer in a business combination as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141R also requires the acquirer to recognize contingent consideration at the acquisition date, measured at its fair value at that date. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*. This statement amends ARB 51 to establish accounting and reporting standards for the Noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's future consolidated financial statements.

During the first quarter of 2009, the Company adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the Financial Accounting Standards Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. The adoption of this standard did not have a material impact on the Company's consolidated results of operations, cash flows or financial position.

During the first quarter of 2009, the Company adopted Statement of Financial Accounting Standard No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* (SFAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of this standard did not have a material impact on the Company's consolidated results of operations, cash flows or financial position.

Destiny Media Technologies Inc.**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

9. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE

The Company operates solely in the digital media software segment and all revenue from its products and services are made in this segment.

Revenue from external customers, by location of customer, is as follows:

	Three Months Ended		Nine Months Ended	
	May 31	May 31	May 31	May 31
	2009	2008	2009	2008
	\$	\$	\$	\$
MPE®				
North America	427,023	300,639	1,205,874	846,957
Europe	125,674		181,504	
Australasia	44,023		74,273	
Total MPE®	596,720	300,639	1,461,651	846,957
Clipstream ® & Pirate Radio				
North America	67,975	62,929	221,453	221,767
Outside of North America	1,134	5,530	4,774	16,831
Total Clipstream ® & Pirate Radio	69,109	68,459	226,227	238,598
Total revenue	665,829	369,098	1,687,878	1,085,555

During the nine months ended May 31, 2009, three customers represented 52% of the total revenue balance [May 31, 2008 one customer represented 50% of the total revenue balance].

As at May 31, 2009, three customers represented \$256,332 (61%) of the trade receivables balance [May 31, 2008 two customers represented 53%].

The Company has substantially all its assets in Canada and its current and planned future operations are, and will be, located in Canada.

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2009

10. FAIR VALUE MEASURES

SFAS 157 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS 157 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. SFAS 157 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Our financial instruments consist principally of cash, accounts receivable, accounts payable and capital lease obligations. We believe that the recorded values of our financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

F-17

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FORWARD LOOKING STATEMENTS

The following discussion should be read in conjunction with the accompanying financial statements and notes thereto included within this Quarterly Report on Form 10-Q. In addition to historical information, the information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding the Company's capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as *may*, *will*, *should*, *expect*, *intend*, *anticipate*, *believe*, *estimate*, *predict*, *potential* or *continue*, the negative of such terms or other similar terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors described in this Quarterly Report, including the risk factors accompanying this Quarterly Report, and, from time to time, in other reports the Company files with the Securities and Exchange Commission. These factors may cause the Company's actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

OVERVIEW AND CORPORATE BACKGROUND

Destiny Media Technologies Inc. (*Destiny Media*) is a holding company which owns 100% of the outstanding shares of Destiny Software Productions Inc. and MPE Distribution, Inc. The *Company*, *Destiny* or *we* refers to the consolidated activities of all three companies.

Destiny develops software tools and provides services which enable content owners to distribute their digital media globally using the internet. All Destiny technologies are developed by internal staff, are proprietary and are owned by the company.

Content can be accessed in either a transient manner (TV, radio) or it can be owned locally by the consumer (DVD's, CD's). Destiny provides media owners both approaches over the internet through two product lines:

A) MPE® Suite of Products

MPE® products are powered by a patented technology that gives content owners the option to lock their content so securely to a recipient machine, and making the digital file impossible to copy. Additionally, MPE® has a patent pending on an additional security feature which permits the copying of the digital file but putting a forensic trace into the content that tracks where illegal copies originate. The first patent was granted in December 2008. The second patent was published in April 2008 and is expected to be considered by the USPTO sometime in the next fiscal year.

The initial focus for MPE® has been on the music industry, but the security can be expanded to perform as *digital shrinkwrap* to secure other content types. Already, the music industry uses the system to deliver graphics, videos, documents and other non audio content types.

MPE® products include:

Play MPE : over 1,000 record labels use this service to deliver pre-release music and music videos to trusted

recipients including radio station program directors, music buyers, record label staff and the media. Over 100,000 songs have been sent through this system.

<http://www.plaympe.com>

MyPlayMPE: a self service system for smaller independents to distribute music and music videos through Play MPE®

<http://www.myplaympe.com>

PODDS: a complete software suite to set up to securely sell music online. Includes encoding modules, accounting modules and the player software. This software can be utilized in an OEM agreement to set up third party online music stores. In addition, Destiny has set up its own store to sell music to commercial users in Canada (DJ's, online jukeboxes, etc.) Destiny has an encoded catalog of 12,000 songs and album artwork under license from the four major record labels in Canada.

<http://www.podds.ca>

The Play MPE® system, which represented most of the Company's revenue in the nine months ended May 31, 2009, enables a content owner to securely move electronic files (song, videos etc.) through the Internet to a trusted end user.

B) Clipstream® Suite of Products

Clipstream® enables users to experience internet audio and video directly inside an email or web page. Competing technologies require users to download, install and configure a player. Users that haven't downloaded the player can't access the content. Because the Clipstream® player is a Java applet and because Java is natively supported by most email and web browser clients, Clipstream® content will play instantly for 98% of the audience. The content will play directly within an email or web page rather than in a separate window. This makes Clipstream® uniquely well suited for applications where reach is important. For example, media companies can take video content intended for television and repurpose it in web pages and emails, and market research companies can get a much higher response rate.

Content is converted into the proprietary Clipstream® compression format using the Clipstream® encoder software which we provide for free. The content owner purchases a code key from us that enables the content to play. Code keys are limited to a period of time.

Our software applications will work on most Java based computers, set top boxes and wireless devices which have enough CPU and memory to play back the content. In addition, our Clipstream® software enables streaming media to be delivered to users regardless of the operating system of the user's computer.

Clipstream® products and solutions include:

Clipstream®: embeds high fidelity audio and video on demand into web pages and emails <http://www.clipstream.com>, <http://www.streamingaudio.com>

Clipstream® Live: embeds live video stream into web pages and emails <http://live.clipstream.com>

Clipstream® IPTV: users can view TV and change channels remotely <http://live.clipstream.com>

Edgar Filing: DESTINY MEDIA TECHNOLOGIES INC - Form 10-Q

Clipstream® Audiomail: converts audio left on a telephone answering machine into an audio clip
<http://www.audio-mail.com>

Clipstream® Survey Solutions: secure video questionnaires prevent piracy and feature high view rates
<http://www.surveyclip.com>

Clipstream® Advertising Solutions: TV style video commercials and rich media banner ads
<http://www.clipstreamad.com>

Clipstream® Server Solutions: servers to power hosted sites
<http://www.clipstreamserver.com>

Radio Destiny: Software and network to broadcast internet radio from a home computer <http://www.radiodestiny.com>,
<http://www.pirateradio.com>, <http://www.stationdirectory.com>

Destiny Media Technologies, Inc. was incorporated in August 1998 under the laws of the State of Colorado.

We carry out our business operations through our wholly owned subsidiary, Destiny Software Productions Inc., a British Columbia company that was incorporated in 1992, and MPE Distribution, Inc. a Nevada company that was incorporated in 2007.

Our principal executive office is located at #800-570 Granville Street, Vancouver, British Columbia V6C 3P1. Our telephone number is (604) 609-7736 and our facsimile number is (604) 609-0611.

We are a publicly traded company. Our common stock trades on the OTC Bulletin board under the symbol **DSNY** and on various German exchanges (Frankfurt, Berlin, Stuttgart and Xetra) under the symbol **DME 935 410**.

Our corporate website is located at <http://www.dsny.com>.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED MAY 31, 2009

Revenue

For the quarter, our revenues increased to \$665,829 representing an increase of 80% over the same quarter in the prior year. Play MPE system access fees have more than doubled over the same period in fiscal 2008. Play MPE has grown sufficiently to realize positive income for quarter.

Total revenue for the nine month period ending May 31 2009 has grown by 56% over the prior year to \$1,687,878 (2008 - \$1,085,555). The growth in revenue is driven by the growth in our Play MPE® system, where access fees have grown by 87% over the same period last year.

The increases in revenue from Play MPE has been realized across the spectrum of our customer base and has continued since we ceased pilot usage of the Play MPE system at the beginning of the prior fiscal year. Over the course of fiscal 2009, we added Warner Music Group and Universal Music Group International to our major label agreements which already included EMI and Universal Music Group (US).

During the nine months ended May 31, 2009 we have expanded into Australia commenced with the commercial use of Play MPE® by Warner Australia, Universal Music Group (Australia) and EMI (Australia) as well as many additional independent clients in Australia.

The growth in third quarter revenue over our second quarter has been realized across formats, through existing clients, and through new clients in new geographic areas and includes; a 25% increase in North American Major Record Label revenue, a 35% increase in North American independent record label revenue, a 416% increase in European based revenue, and a 60% increase in Australasia revenue expansion.

The music industry has begun to use Play MPE® in some markets as the primary distribution method and Play MPE® is the world leader in secure digital distribution. We have seen the transition from traditional distribution methods to

Play MPE® begin gradually and the growth seen in 2008 has continued into 2009.

During the nine months ended May 31, 2009 approximately 13% of our revenues are derived from sales of our Clipstream® software. We hope to increase sales of Clipstream® licenses through our hosted solution and other license opportunities.

Operating Expenses

Operating expenditures for the nine months ended May 31 2009 has decreased by 43% over the same period in the prior year to \$1,855,140 (2008 - \$3,237,460). The strengthening of the US dollar has some influence on our operating expenditures and has resulted in a decrease of approximately 12-14%.

The establishment of the Play MPE® product on a commercial basis and maturity of the product on a technical basis has also resulted in reduced staffing requirements. These reductions result in decreased operating expenses for the nine months ended May 31 2009.

Included in our expenses are non-cash amortization and stock compensation expense of \$63,696 (2008 -\$215,279) leading to a net loss before non-cash items of \$15,248 for the nine months ended May 31 2009. Our current level of expenditures is sufficient to adequately service our North American revenue. The increases in revenue will come with added costs for support, marketing, servers and bandwidth. However we anticipate that these increases in costs will not be significant in relation to the anticipated revenue increase.

The rent expense of \$206,153 is offset by our sub-lease rental income of \$68,327 which is included in Other income in the Statement of Operations.

General and administrative	31-May 2009 (9 months)	31-May 2008 (9 months)	\$ Change	% Change
Wages and benefits	271,166	312,260	(41,094)	(13.2%)
Rent	52,773	42,973	9,800	22.8%
Telecommunications	15,880	14,041	1,839	13.1%
Bad debt	15,804	6,748	9,056	134.2%
Office and miscellaneous	45,945	186,459	(140,514)	(75.4%)
Professional fees	139,086	275,904	(136,818)	(49.6%)
	540,654	838,385	(297,731)	(35.5%)

Our general and administrative expenses consist primarily of salaries and related personnel costs including overhead, professional fees, and other general office expenditures.

The decrease in office and miscellaneous is due to the reduction in investor relations fees, and due to a one time application fee paid in the prior year.

A reduction in professional fees is due to a reduction of the volume of legal work associated with securities, litigation, contracts, and patents and trademarks work.

Sales and marketing	28-Feb 2009	29-Feb 2008	\$ Change	% Change
	(9 months)	(9 months)		
Wages and benefits	288,532	510,775	(222,243)	(43.5%)
Rent	53,699	67,460	(13,761)	(20.4%)
Telecommunications	16,159	22,041	(5,882)	(26.7%)
Meals and entertainment	658	17,805	(17,147)	(96.3%)
Travel	36,895	66,805	(29,910)	(44.8%)
Advertising and marketing	238,313	560,034	(321,721)	(57.4%)
	634,256	1,244,920	(610,664)	(49.1%)

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs.

The majority of this decrease was due to the decrease in marketing expenditures. During the nine months ended May 31, 2008, we significantly expanded our marketing and advertising efforts for Play MPE®. During the nine months ended May 31, 2009, Play MPE® has received significant support from the world's largest record labels resulting in cost effective and organic marketing efforts and the need for higher cost marketing efforts has decreased.

With the addition of partnering opportunities, advertising and marketing costs could decrease or be reallocated to new markets on an as needed basis.

Research and development	28-Feb 2009	29-Feb 2008	\$ Change	% Change
	(9 months)	(9 months)		
Wages and benefits	512,203	947,779	(435,576)	(46.0%)
Rent	99,682	130,433	(30,751)	(23.6%)
Telecommunications	29,996	42,617	(12,621)	(29.6%)
Research and development	10,942	-	10,942	100%
	652,823	1,120,829	(478,948)	(42.7%)

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The decrease is mainly due to decreased staffing and consulting requirements due to the technical maturity of the Play MPE® product.

Amortization

Amortization expense arose from fixed assets and other assets. Amortization decreased to \$27,407 for the nine months ended May 31, 2009 from \$33,326 for the nine months ended May 31, 2008, a decrease of \$5,919 or 18%.

Other earnings and expenses

Other income decreased to \$72,877 for the nine months ended May 31, 2009 from \$73,499 for the nine months ended May 31, 2008, an decrease of \$622.

Interest income decreased to \$2,964 for the nine months ended May 31, 2009 from \$15,451 for the nine months ended May 31, 2008, a decrease of \$12,487.

Interest expense decreased to \$2,531 for the nine months ended May 31, 2009 from \$18,480 for the nine months ended May 31, 2008, a decrease of \$15,949.

Gain on settlement of debt increased to \$15,008 for the nine months ended May 31, 2009 from \$0 for the nine months ended May 31, 2008, an increase of \$15,008.

Net income (loss)

During the quarter, we began to realize positive net income from operations and began to generate surplus cash. Management believes this is an inflection point for the Company and represents the beginning of profitability and positive cash flow. The current quarter's profit was not sufficient yet for the positive income for the nine months ended May 31, 2009. Our net loss for this period has decreased by 96% from the same period in the previous year.

LIQUIDITY AND FINANCIAL CONDITION

We had cash of \$150,684 as at May 31, 2009 compared to cash of \$91,369 as at August 31, 2008. We had a working capital deficiency of \$125,967 as at May 31, 2009 compared to a working capital deficiency of \$192,772 as at August 31, 2008. During the quarter, the Company was required to pay a retainer to counsel in respect of the new litigation that was served on May 12, 2009 and outlined in Note 7 to the financial statements. Our third quarter resulted in positive cash flow from operations, and positive net income after considering costs and cash disbursements associated with our US litigation. The Company anticipates that both our cash position and our working capital deficiency will continue to improve during the fourth quarter as a result of anticipated increases to revenue.

CASHFLOWS

Operating

Net cash generated from operations during the quarter was \$93,082 which has partially reversed the amount used in operations during the first half of the year, reducing the total amount used in the nine month period ending May 31, 2009 to \$38,125 compared to \$1,542,910 for the nine months ended May 31, 2008.

Investing

Net cash used in investing activities during the nine months ended May 31, 2009 was \$18,280, as compared with \$43,861 used in investing activities for the nine months ended May 31, 2008.

Financing

Net cash provided from financing activities decreased to \$119,565 during the nine months ended May 31, 2009, as compared to \$434,007 used in financing activities over the same period in the prior year.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, and make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, and the related disclosures of contingent liabilities. We base our estimates on historical experience and other assumptions that we believe are reasonable in the circumstances. Actual results may differ from these estimates.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements.

- The consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. If we were not to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. There can be no assurances that we will be successful in generating additional cash from equity or other sources to be used for operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.
 - We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, collection is reasonably assured, and there are no substantive performance obligations remaining. Our revenue recognition policies are in conformity with AICPA's Statement of Position No. 97-2, Software Revenue Recognition, as amended (SOP 97-2). We generate revenue from software arrangements involving multiple element sales arrangements. Revenue is allocated to each element of the arrangement based on the relative fair value of the elements and is recognized as each element is delivered and we have no significant remaining performance obligations. If evidence of fair value for each element does not exist, all revenue from the arrangement is recognized over the term of the arrangement. Changes in our business priorities or model in the future could materially impact our reported revenue and cash flow. Although such changes are not currently contemplated, they could be required in response to industry or customer developments.
-

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures at May 31, 2009. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer, Mr. Steven Vestergaard and Chief Financial Officer, Mr. Fred Vandenberg. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no material changes in our internal controls or in other factors that could materially affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed our reports filed or submitted 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 include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There have been no significant changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On February 19, 2009, the Company received a Statement of Claim in the Court of Queen's Bench of Alberta on behalf of a former employee living in Mexico. The claim was for approximately \$133,000 plus unspecified damages and 385,833 stock options. On June 19, 2009, the plaintiff filed a discontinuance of action and the matter is no longer before the courts.

On May 12, 2009, the Company was served with a statement of claim in the United States District Court for the Eastern District of Wisconsin alleging that Destiny Software Productions, Inc., Destiny Media Technologies, Inc. and MPE Distribution, Inc. infringe on USPTO patent number 7,529,712 owned by Yangaroo, Inc. The Company believes this claim is without merit and on June 22, 2009 filed a motion to dismiss the claim pursuant to rule 12(b)(6), FED. R. CIV. P. AND CIVIL L.R. 7.1

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of securities holders during the nine months ended May 31, 2009.

Item 5. Other Information

None.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

EXHIBIT DESCRIPTION
NUMBER

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002(1)

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002(1)

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)

(1) Filed as an exhibit to this Annual Report on Form 10-Q

(b) Reports on Form 8-K.

On April 2, 2009 we filed form 8-K for changes in registrant's certifying accountant. Manning Elliott LLP, Chartered Accountants ("Manning Elliott") is retained as the sole principal independent registered accountant for the Company effectively March 27, 2009.

SIGNATURES

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

DESTINY MEDIA TECHNOLOGIES INC.

Dated: July 14, 2009

/s/Steven Vestergaard
Steven Vestergaard, Chief Executive Officer
and

/s/Fred Vandenberg
Frederick Vandenberg, Chief Financial Officer
