DESTINY MEDIA TECHNOLOGIES INC
Form 10-Q
January 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 three months ended November 30, 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: 0-028259

DESTINY MEDIA TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

COLORADO	**84-1516745**
(State or other jurisdiction of incorporation or organization)	(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 __

State the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:
51,590,314 Shares of $0.001 par value common stock outstanding as of November 30, 2008.

Transitional small business disclosure format (check one):

Yes __ No X

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

Consolidated Financial Statements

Destiny Media Technologies Inc.
(Unaudited)
Three months ended November 30, 2008

Destiny Media Technologies Inc.

CONSOLIDATED BALANCE SHEETS
(Expressed in United States dollars)
[See Note 2 - Going Concern Uncertainty]
Unaudited

As at

	November 30, 2008 $	August 31, 2008 $
ASSETS		
Current		
Cash	**151,636**	91,369
Accounts and other receivables, net of allowance for		
doubtful accounts of $11,289 [August 31, 2008 $56,365]	**315,420**	336,734
Prepaid expenses	**62,220**	73,171
Total current assets	**529,276**	501,274
Deposits	**41,941**	48,863
Property and equipment, net of accumulated		
amortization of $268,033 [August 31, 2008 - $305,597]	**86,052**	111,300
Total assets	**657,269**	661,437
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
Current		
Accounts payable	**407,350**	382,606
Accrued liabilities	**198,331**	245,977
Shareholder loans payable *[note 6]*	**24,190**	44,152
Deferred revenue	**6,175**	21,311
Total current liabilities	**636,046**	694,046
Obligation for share settlement	**100,000**	100,000
Total liabilities	**736,046**	794,046
Commitments and contingencies		
Stockholders deficiency		
Common stock, par value $0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 51,590,314 shares		
[August 31, 2008 51,090,314 shares]	**51,592**	51,092
Issued and held for settlement: 133,333 shares		
Additional paid-in capital	**9,338,446**	9,208,131
Deficit	**(9,594,988)**	(9,511,445)
Accumulated other comprehensive income	**126,173**	119,613
Total stockholders deficiency	**(78,777)**	(132,609)
Total liabilities and stockholders deficiency	**657,269**	661,437

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in United States dollars)
Unaudited

	Three Months Ended November 30, 2008 $	**Three Months Ended November 30, 2007** $
Revenue *[note 10]*	**554,561**	356,648
Operating expenses		
General and administrative	**182,384**	318,886
Sales and marketing	**254,920**	485,794
Research and development	**224,835**	378,173
Amortization	**7,937**	9,801
	670,076	1,192,654
Loss from operations	**(115,515)**	(836,006)
Other income (expenses)		
Other income	**32,137**	18,188
Interest income	**791**	10,266
Interest and other expense	**(956)**	(4,048)
Net loss for the period	**(83,543)**	(811,600)
Net loss per common share, basic and diluted	**(0.00)**	(0.01)
Weighted average common shares outstanding, basic and diluted	**51,106,798**	49,942,462

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS DEFICIENCY
(Expressed in United States dollars)
Unaudited

	Common stock Shares	Common stock Amount	Additional paid-in capital	Deficit	Accumulated other comprehensive income	Total stockholders' deficiency
	#	$	$	$	$	$
Balance, August 31, 2008	51,090,314	51,092	9,208,131	(9,511,445)	119,613	(132,609)
Net loss				(83,543)		(83,543)
Foreign currency translation gain					6,560	6,560
Comprehensive loss						(76,983)
Common stock issued on options exercised	500,000	500	99,500			100,000
Stock based compensation			30,815			30,815
Balance, November 30, 2008	51,590,314	51,592	9,338,446	(9,594,988)	126,173	(78,777)

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)
Unaudited

	Three Months Ended November 30, 2008 $	**Three Months Ended November 30, 2007** $
OPERATING ACTIVITIES		
Net loss for the period	**(83,543)**	(811,600)
Items not involving cash:		
Amortization	**7,937**	9,801
Stock-based compensation	**30,815**	108,078
Loss on disposal of capital assets	**2,280**	
Changes in non-cash working capital:		
Accounts and other receivables	**(28,444)**	55,517
Loan		(98,521)
Prepaid expenses	**630**	6,437
Accounts payable and accrued liabilities	**70,376**	121,497
Deferred revenue	**(13,059)**	(2,619)
Net cash used in operating activities	**(13,008)**	(512,889)
INVESTING ACTIVITIES		
Purchase of equipment		(23,401)
Proceeds on disposition of capital assets		1,071
Net cash used in investing activities		(22,330)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	**100,000**	2,000
Proceeds (repayments) from shareholder loans	**(14,774)**	(98,521)
Net cash provided by financing activities	**85,226**	(96,521)
Effect of foreign exchange rate changes on cash	**(11,951)**	87,488
Net increase (decrease) in cash	**60,267**	(544,252)
Cash, beginning of period	**91,369**	1,215,183
Cash, end of period	**151,636**	670,931
Supplementary disclosure		
Cash paid for interest	**956**	4,048

See accompanying notes

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

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 generally accepted in the United States for interim financial information and in accordance with Item 310(b) of Regulation S-K. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles 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 three months period ended November 30, 2008 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 generally accepted accounting principles 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 generally accepted accounting principles 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 incurred a net loss of $83,543 for the three months ended November 30, 2008, and has a working capital deficit of $106,770 and a shareholders deficiency of $78,777 as at November 30, 2008, that raise doubt about its ability to continue as a going concern.

During the three months ended November 30, 2008, the Company has continued to implement its business plan of increasing revenue through the expansion of our products into new geographic areas and through increased usage by existing customers for its Play MPE® system. The Company is pursuing transaction fee based agreements with other large record labels and has also has developed an Indie Uploader system for smaller labels available on www.myplaympe.com.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

2. BASIS OF PRESENTATION (cont d.)

The Company is encouraged by its revenue growth through fiscal 2008 and into the first quarter of fiscal 2009. Management expects revenues and cashflows to continue to improve throughout fiscal 2009 as customers incorporate Play MPE® into their work flow and as Play MPE® expands globally. Management is expanding the use of Play MPE® globally and has established commercial agreements on a global basis with two of the four largest record labels in the world, and anticipates the trend of increased revenue to continue through increased revenue from new and existing customers in North America and in overseas markets. Management also anticipates further reductions in expenditures from favorable foreign exchange rates and previously reduced staffing levels which have not yet resulted in reduced expenses on the financial statements. The Company is also currently negotiating a partnering agreement which could result in a significant reduction in current marketing expenditures and act as a catalyst to worldwide expansion.

The Company will need to raise additional funds to complete its business plan due to its significant working capital deficiency. The Company s goal is to obtain these funds through internal and external financing sources including cash flows from operations, strategic partnerships, equity financings and shareholder loans. 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 in doubt. 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. OBLIGATION FOR SHARE SETTLEMENT

During the fiscal year ended August 31, 2003, the Company issued 133,333 common shares to be delivered in settlement for proceeds of $100,000 received in respect of a private placement that was not completed in August of 2000. As the private placement was not completed and although management expects that the amount ultimately will be settled through the release of the shares, the obligation for share settlement is recorded as a liability until a settlement is finalized between the Company and parties involved in the August 2000 private placement.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

4. 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 three months ended November 30, 2008, 500,000 stock options were exercised for cash proceeds of $100,000.

[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, 615,501 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.

Stock-based Payment Award Activity

A summary of option activity under the Plans as of November 30, 2008, and changes during the three month 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	(249,167)	(0.53)		
Outstanding at November 30, 2008	4,139,833	0.45	2.54	83,930
Vested and exercisable at November 30, 2008	4,034,416	0.45	2.51	79,118

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

4. SHARE CAPITAL (cont d.)

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 November 30, 2008.

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 November 30, 2008 has considerations for estimated forfeitures. When estimating forfeitures, the Company considers voluntary termination behavior as well as trends of actual option forfeitures.

During the three months ended November 30, 2008, 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 \$30,815 is reported in the statement of operations as follows:

	November 30, 2008	November 30, 2007
	$	$
Stock-based compensation:		
General and administrative	**8,488**	22,402
Sales and marketing	**11,864**	59,109
Research and development	**10,463**	26,567
Total stock-based compensation	**30,815**	108,078

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Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

4. 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 November 30, 2008	November 30, 2007
Expected life of stock options (years)	1.6-2.5	2.50
Expected volatility	88%-96%	85%
Risk-free interest rate	0.9%-1%	4.5%
Dividend yields		

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 three month periods ended November 30, 2008 and 2007 was $0.08 and $0.27, respectively.

As of November 30, 2008 there was $6,406 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 6- 24 months.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

4. SHARE CAPITAL (cont d.)

[c] Warrants

As at November 30, 2008, 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.

5. COMMITMENTS

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

	$
2009	219,001
2010	219,001
	438,002

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.

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Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

6. RELATED PARTY TRANSACTIONS

The Company entered into a sublease agreement with a Director effective September 1, 2007 which was renewed September 1, 2008 on a month-to-month basis with a two month notice period. The term of the sublease calls for committed monthly payments of $6,016. A deposit of $12,260 has been received which will be applied to the last two months lease payments. The rent deposit is included in accrued liabilities.

During the three month period ended November 30, 2008, the Company has received a loan in the amount of $24,190 ($30,000CDN) from its Chief Executive Officer, Steve Vestergaard, who is a shareholder. The loan is due on demand and bears interest at 5.5% . The Company has repaid the loan in the amount of $44,152($47,000CDN) to its Chief Financial Officer, Fred Vandenberg during this quarter.

7. 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 November 30, 2008. 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.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

8. 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 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.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

Three months ended November 30, 2008 Unaudited

9. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

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)

Three months ended November 30, 2008 Unaudited

10. 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 November 30	
	2008	**2007**
	$	$
MPE®		
North America	**437,405**	262,264
Outside of North America	**34,094**	
Total MPE® Revenue	**471,499**	262,264
Clipstream ® & Radio Destiny		
North America	**80,833**	89,188
Outside of North America	**2,229**	5,196
Total Clipstream ® & Radio Destiny Revenue	**83,062**	94,384
Total Revenue	**554,561**	356,648

During the three months ended November 30, 2008, two customers represented 48% of the total revenue balance [November 30, 2007 one customer represented 49% of the total revenue balance].

As at November 30, 2008, two customers represented $118,667 (39%) of the trade receivables balance [August 31, 2008 two customers represented 35%].

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

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 c 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 two patent pending technologies that give content owners a choice of either locking their content so securely to a recipient machine that it is impossible to copy or giving the end user the ability to copy, 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 and is expected to be considered by the USPTO by the end of fiscal 2009.

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 three months ended November 2008, 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

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 THREE MONTHS ENDED NOVEMBER 30, 2008

Revenue

Total revenue has grown by 55% over the same quarter in the prior year to $554,561 (2007 - $356,648), by 12% over the previous quarter, and represents the eighth consecutive quarter of revenue growth. This is the 5th consecutive quarter in which revenue is the highest in the Company s history.

Our growth in revenue is driven by the growth in our Play MPE® system, where access fees have grown by 80% over the same period last year and by 17% over the previous quarter to a total of approximately $470,000 for the quarter.

In fiscal 2008, we ceased pilot usage of the Play MPE® system and have continued to see an increase in revenue reaching our thirteenth straight quarter of revenue growth for the Play MPE® system access. Over the course of fiscal 2008, we entered into and expanded our commercial agreements, adding EMI and Warner Music Group (our second and third US Major Record Labels respectively), several sub-labels of Sony BMG and hundreds of independent record labels in the US. Additionally we renewed our agreement with Universal Music Group and have several sub-labels of Sony BMG on a pay-as-you-go basis.

Also during fiscal 2008 we expanded the commercial use of Play MPE® into Europe with the addition of contracts with Universal Music Group, Warner and Sony BMG in Sweden. Warner Sweden was subsequently expanded to include Finland and Norway.

The increase in Play MPE® revenue during the first quarter of 2009 was the result of increases across the spectrum of our client base. The growth has been realized across formats, through existing clients, and through new clients in new geographic areas and includes; a 17% increase in North American Major Record Label revenue, a 40% increase in North American independent record label revenue, a 53% increase in Northern European revenue, expansion into Australia, and revenue from two Major Record Labels rolling out international pilots in new territories.

The expansion into Australia commenced with the commercial use of Play MPE® by Warner Australia. It is anticipated that agreements with Universal Music Group (Australia) and EMI (Australia) as well as additional independent clients in Australia will be added to our revenue base in the second quarter.

We anticipate revenue from Play MPE® to continue to increase into the foreseeable future as the system becomes established in additional countries worldwide and increases in use by existing customers are realized. 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.

Management expects to expand usage of video distribution through Play MPE® in 2009 and to provide video streaming capabilities to the industry through our new automated Clipstream® hosted solution, anticipated to launch in March. Approximately 14% of our revenues are derived from sales of our Clipstream® software. Sales of our Clipstream software have improved marginally over the average quarterly sales in the prior year.

Operating Expenses

Operating expenditures have decreased over the previous quarter by approximately 11% and by 44% over the previous year. The strengthening of the US dollar has some influence on our operating expenditures and has resulted in a decrease of approximately 8-10%. We anticipate the favorable exchange rates to result in further reductions to expenses into our second quarter.

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 do not currently impact the first quarter operating expense but it is anticipated these changes will result in decreased operating expenses in our second quarter.

Included in our expenses are non-cash amortization and stock compensation expense of $38,752 (2007 - $117,879) leading to a net loss before non-cash items of $44,791. It is anticipated that the trend of increasing revenue and declining expenditures realized in each of the past several quarters will continue through our second quarter and will result in positive cash flow and positive net income.

At the end of fiscal 2007 we moved offices due to a proposed rent increase and to accommodate anticipated growth in staff. We were able to secure approximately double the square footage for approximately the same cost as the proposed rent increase. The new space is sufficiently large and efficient to accommodate our growth while providing some space to sub-lease. The rent expense of $70.811 is offset by our sub-lease rental income of $18,188 which is included in “Other income’’ in the Statement of Operations.

General and administrative	**November 30 2008** (3 months)	**November 30 2007** (3 months)	**$ Change**	**% Change**
Wages and benefits	99,522	97,768	1,754	1.8%
Rent	17,703	13,435	4,268	31.8%
Telecommunications	4,829	5,687	(858)	(15.1%)
Bad debt	20,847	4,956	15,891	320.6%
Office and miscellaneous	(5,673)	100,426	(106,099)	(105.6%)
Professional fees	45,156	96,614	(51,458)	(53.3%)
	182,384	318,886	(141,611)	(42.8%)

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. Additionally, foreign exchange gains were realized on various balances which are denominated in Canadian dollars.

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	**November 30 2008** (3 months)	**November 30 2007** (3 months)	**$ Change**	**% Change**
Wages and benefits	143,094	167,501	(24,407)	(14.6%)
Rent	20,498	22,128	(1,630)	(7.4%)
Telecommunications	5,591	9,367	(3,776)	(40.3%)
Meals and entertainment	553	4,639	(4,086)	(88.1%)
Travel	9,950	17,556	(7,606)	(43.3%)
Advertising and marketing	75,234	264,603	(189,369)	(71.6%)
	254,920	485,794	(230,874)	(47.5%)

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 first quarter of last year, we significantly expanded our marketing and advertising efforts for Play MPE®. During our first quarter of fiscal 2009, Play MPE® has received significant support from the world s largest record labels resulting in cost effective and organic marketing efforts and demand on higher costs 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	**November 30 2008** (3 months)	**November 30 2007** (3 months)	**$ Change**	**% Change**
Wages and benefits	183,330	316,309	(132,979)	(42.0%)
Rent	32,610	43,465	(10,855)	(25.0%)
Telecommunications	8,895	18,399	(9,504)	(51.7%)
	224,835	378,173	(153,338)	(40.5%)

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 $7,937 for the three months ended November 30, 2008 from $9,801 for the three months ended November 30, 2007, a decrease of $1,864 or 19%.

Other earnings and expenses

Other income increased to $32,137 for the three months ended November 30, 2008 and reflects rent collected from sub-leases of our office space.

Interest income decreased to $791 for the three months ended November 30, 2008 from $10,266 for the three months ended November 30, 2007, a decrease of $9,475.

Interest expense decreased to $956 for the three months ended November 30, 2008 from $4,048 for the three months ended November 30, 2007, a decrease of $3,092.

Net Losses

Our net loss decreased by 90% from the same quarter in the previous year. With continued growth in revenue and anticipated reductions in costs mentioned above it is anticipated that this trend will continue.

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $151,636 as at November 30, 2008 compared to cash of $91,369 as at August 31, 2008. We had a working capital deficiency of $106,770 as at November 30, 2008 compared to a working capital deficiency of $192,772 as at August 31, 2008. Both our cash position and our working capital deficiency have improved during the quarter and this trend is expected to continue as a result of anticipated increases to revenue and anticipated decreases to operating expenses.

CASHFLOWS

Operating

Net cash used in operating activities decreased to $13,008 for the three months ending November 30, 2008, compared to $512,889 for the three months ended November 30, 2007 as a result of increasing revenues, and efficiencies pursued by management which has resulted in declining costs.

Investing

There was no net cash used in investing activities during the three months ended November 30, 2008, as compared with $22,330 used in investing activities for the three months ended November 30, 2007.

Financing

Net cash provided from financing activities increased to $85,226 during the three months ended November 30, 2008, as compared to $96,521 used in financing activities over the same period in the prior year.

Going Concern

During the three month ended November 30, 2008, the Company has continued to implement its business plan of increasing revenue through the expansion of our products into new geographic areas and through increased usage by existing customers for its Play MPE® system. The Company is pursuing transaction fee based agreements with other large record labels, and has also developed an Indie Uploader system for smaller labels available on www.myplaympe.com.

The Company is encouraged by its revenue growth through fiscal 2008 and into the first quarter of fiscal 2009. Management expects revenues and cashflows to continue to improve and to extend the Company s trend of eight consecutive quarters of revenue growth throughout fiscal 2009 as its customers incorporate Play MPE® into their work flow and as Play MPE® expands globally. Management is expanding the use of Play MPE® globally and has established commercial agreements on a global basis with two of the four largest record labels in the world, and anticipates the trend of increased revenue to continue through increased revenue from new and existing customers in North America and in overseas markets. Management also anticipates further reductions in expenditures from favorable foreign exchange rates and previously reduced staffing levels which have not yet resulted in reduced expenses on the financial statements. The Company is also currently negotiating a partnering agreement which could result in a significant reduction in current marketing expenditures and act as a catalyst to worldwide expansion.

The Company will need to raise additional funds to complete its business plan due to its significant working capital deficiency. The Company s goal is to obtain these funds through internal and external financing sources including cash flows from operations, strategic partnerships, equity financings and shareholder loans. 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 in doubt. The accompanying 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.

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. 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 November 30, 2008. 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.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

No developments subsequent to August 31, 2008

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 three months ended November 30, 2008.

Item 5. Other Information

None.

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

(a) Exhibits

EXHIBIT NUMBER	DESCRIPTION
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.
None.

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: January 14, 2009

/s/Steven Vestergaard
Steven Vestergaard,
Chief Executive Officer

and

/s/Frederick Vandenberg
Frederick Vandenberg,
Chief Financial Officer