DESTINY MEDIA TECHNOLOGIES INC
Form 10-Q
January 14, 2010

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, 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	**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 __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __ No __

(Does not currently apply to the Registrant)

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):

Large accelerated filer	[ ]		Accelerated filer	[ ]
Non-accelerated filer	[ ]	(Do not check if a smaller reporting company)	Smaller reporting company	[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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:
51,864,547 Shares of $0.001 par value common stock outstanding as of January 13, 2010.

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

Consolidated Financial Statements

Destiny Media Technologies Inc.

(Unaudited)
Three months ended November 30, 2009

Destiny Media Technologies Inc.

CONSOLIDATED BALANCE SHEETS
(Expressed in United States dollars)
Unaudited

As at

	November 30, 2009 $	August 31, 2009 $
ASSETS		
Current		
Cash	**425,534**	253,100
Accounts receivables, net of allowance for		
doubtful accounts of $8,945 [August 31, 2009 $2,289]	**427,982**	502,275
Other receivables	**53,012**	15,120
Prepaid expenses	**60,164**	59,201
Deferred tax assets	**450,000**	450,000
Total current assets	**1,416,692**	1,279,696
Deposits	**9,416**	9,158
Property and equipment, net	**121,188**	123,770
Deferred commission costs	**10,272**	13,320
Total assets	**1,557,568**	1,425,944
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	**146,118**	349,164
Accrued liabilities	**260,993**	176,624
Shareholder loans payable *[note 5]*		68,681
Deferred revenue	**6,603**	17,198
Obligation under capital leases current portion	**9,872**	9,356
Total current liabilities	**423,586**	621,023
Obligation under capital leases long term portion	**11,818**	13,987
Total liabilities	**435,404**	635,010
Commitments and contingencies		
Stockholders equity		
Common stock, par value $0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 52,059,647shares		
[August 31, 2009 51,723,647 shares]	**52,061**	51,725
Additional paid-in capital	**9,491,988**	9,492,168
Accumulated deficit	**(8,577,934)**	(8,900,614)
Accumulated other comprehensive income	**156,049**	147,655
Total stockholders equity	**1,122,164**	790,934
Total liabilities and stockholders equity	**1,557,568**	1,425,944

See accompanying notes

Destiny Media Technologies Inc.

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

	Three Months Ended November 30, 2009 $	Three Months Ended November 30, 2008 $
Revenue *[note 9]*	**1,047,528**	554,561
Operating expenses		
General and administrative	**245,730**	182,384
Sales and marketing	**204,546**	254,920
Research and development	**291,657**	224,835
Amortization	**11,490**	7,937
	753,423	670,076
Income (loss) from operations	**294,105**	(115,515)
Other income (expenses)		
Other income	**28,960**	32,137
Interest income	**948**	791
Interest and other expense	**(1,333)**	(956)
Net income (loss) for the period	**322,680**	(83,543)
Net income (loss) per common share, basic and diluted	**0.01**	(0.00)
Weighted average common shares outstanding:		
Basic	**51,841,801**	51,106,798
Diluted	**52,434,453**	51,106,798

See accompanying notes

Destiny Media Technologies Inc.

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

	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total stockholders equity
	#	$	$	$	$	$
Balance, August 31, 2009	**51,723,647**	**51,725**	**9,492,168**	**(8,900,614)**	**147,655**	**790,934**
Net income				322,680		322,680
Foreign currency translation gain					8,394	8,394
Comprehensive income						331,074
Common stock issued on warrants exercised	336,000	336	(336)			
Stock based compensation			156			156
Balance, November 30, 2009	**52,059,647**	**52,061**	**9,491,988**	**(8,577,934)**	**156,049**	**1,122,164**

See accompanying notes

Destiny Media Technologies Inc.

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

	Three Months Ended November 30, 2009 $	Three Months Ended November 30, 2008 $
OPERATING ACTIVITIES		
Net income (loss) for the period	**322,680**	(83,543)
Items not involving cash:		
Amortization	**11,490**	7,937
Deferred commission costs	**3,409**	
Stock-based compensation	**156**	30,815
Loss on disposal of capital assets		2,280
Changes in non-cash working capital:		
Accounts receivable	**88,009**	(14,636)
Other receivables	**(37,219)**	(13,808)
Prepaid expenses	**706**	630
Accounts payable	**(218,618)**	85,090
Accrued liabilities	**85,923**	(14,714)
Deferred revenue	**(11,032)**	(13,059)
Net cash provided (used) in operating activities	**245,504**	(13,008)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(5,438)**	
Net cash used in investing activities	**(5,438)**	
FINANCING ACTIVITIES		
Repayments on capital lease obligations	**(2,302)**	
Proceeds from exercise of stock options		100,000
Repayments of shareholder loans	**(70,310)**	(14,774)
Net cash provided (used) by financing activities	**(72,612)**	85,226
Effect of foreign exchange rate changes on cash	**4,980**	(11,951)
Net increase in cash	**172,434**	60,267
Cash, beginning of period	**253,100**	91,369
Cash, end of period	**425,534**	151,636
Supplementary disclosure		
Cash paid for interest	**1,333**	956
Income taxes paid		

See accompanying notes

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 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, Europe 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 pursuant to the rules and regulations of the United States Securities and Exchange Commission. 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 ended November 30, 2009 are not necessarily indicative of the results that may be expected for the year ended August 31, 2010.

The balance sheet at August 31, 2009 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-K for the year ended August 31, 2009.

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

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 three months ended November 30, 2009, 336,000 shares were issued for cashless exercise of 600,000 warrants with an exercise price of $0.22.

[b] Stock option plans

The Company has two existing stock option plans (the Plans), namely the Amended 1999 Stock Option Plan and the 2006 Stock Option Plan, under which up to 3,750,000 and 5,100,000 shares of the common stock, respectively, have been reserved for issuance. Of which, 640,375 common shares and 175,959 common shares, respectively, 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, 2009, 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, 2009	**3,939,000**	**0.44**	**2.06**	**80,190**
Granted				
Exercised				
Expired				
Outstanding at November 30, 2009	**3,939,000**	**0.44**	**1.82**	**229,330**
Vested and exercisable at November 30, 2009	**3,926,500**	**0.44**	**1.82**	**229,330**

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

3. 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, 2009.

As a FASB standard 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, 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 three months ended November 30, 2009, total stock-based compensation expense related to employees of $156 is reported in the statement of operations as follows:

	November 30, 2009	November 30, 2008
	$	$
Stock-based compensation:		
General and administrative	**36**	8,488
Sales and marketing	**34**	11,864
Research and development	**86**	10,463
Total stock-based compensation	**156**	30,815

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, 2009	**November 30, 2008**
Expected life of stock options (years)		1.6-2.5
Expected volatility		88%-96%
Risk-free interest rate		0.9%-1%
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

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

3. SHARE CAPITAL (cont d.)

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.

No options were granted during the quarter ended November 30, 2009. The weighted-average grant-date fair value of options granted during the three month period ended November 30, 2008 was $0.08.

As of November 30, 2009 there was $622 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 12 months.

[c] Warrants

As at November 30, 2009, the Company has the following common shares warrants outstanding:

	Number of Common Shares Issuable	**Exercise Price $**	**Date of Expiry**
$0.22 Warrants	350,000	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	May 31, 2011
$0.70 Warrants	500,000	0.70	April 9, 2012
	7,252,136		

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.

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

4. COMMITMENTS

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

	$
2010	235,881
	235,881

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 the fiscal year of 2010, the Company is committed to make payments under its capital leases for a three-year terms as follows:

	$
2010	8,799
2011	11,732
2012	3,816
Total lease payments	24,348
Less: Amounts representing interest	(2,658)
Balance of obligation	21,690
Less: Current portion	(9,872)
Long term portion	11,818

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 $1,406 (CDN$1,500).

During the three months ended November 30, 2009, the Company paid off the loan balance of $68,681 (CDN$75,000) due to the Company s Chief Financial Officer bearing interest at 7% per annum.

During the three months ended November 30, 2009, the Company paid interest expense of $621 to related parties (2008: $99).

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

6. INCOME TAX

The Company adopted the provisions of ASC 740*, Income taxes*. The standard clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements 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. The standard 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, 2009, the tax years which remain subject to examination by major tax jurisdictions as of November 30, 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

The Company is involved in three actions with a competitor in Canada (Yangaroo Inc. Yangaroo , formerly Musicrypt Inc.) regarding various patent claims as described below:

a) On March 7, 2006, the Company filed a statement of claim in the Federal Court of Canada against Yangaroo (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. On June 7, 2006, the Company s counsel received a statement of defense and counterclaim from the Defendant, requesting specified damages or audited profits from the Play MPE® system sourced to Canada.

b) On May 3, 2007, the Company filed a claim in Ontario Superior Court against the Defendant (Yangaroo Inc.), Chief Executive Officer of the Defendant and Chief Financial Officer of the Defendant (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. On June 7, 2007, the Defendant filed a statement of defense and counterclaim against the Company for the same amount and for the same causes.

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

7. CONTINGENCIES (cont d.)

c) On May 12, 2009, the Company was served with a complaint in the United States District Court for the Eastern District of Wisconsin by the Defendant (the Claimant) in the Canadian litigation above, alleging that the Company infringes on its recently issued one method claim in United States Patent No. 7,529,712. On September 18, 2009 the Company filed an Answer, which included a statement of its defenses. One defense the Company has asserted is the patent claim has limitations regarding operations on a server and as the Company s servers are outside the United States, the Claimant s U.S. patent cannot be asserted against the Company. On October 13, 2009 the U.S. District Court issued a scheduling order that limits discovery in the U.S. case to the Company s defense of extraterritoriality and that the Court will entertain a motion for summary judgment by the Company dismissing the case on that basis alone, prior to further discovery, if any. It is management s opinion that the Claimant was sufficiently aware of the location of Company s servers well prior to the date it brought suit and, given Claimant s duty to investigate the law regarding extraterritoriality prior to bringing suit, this case is improper. As a result, the Company will be seeking legal costs from the Claimant, if successful. In response to the Company's first requested responses to admit, on January 7, 2010, the Claimant's attorneys formally admitted on the court record that the Claimant has no evidence that Company's servers are in the U.S. and that based on the evidence in the case, Destiny's servers are not located in the United States.

The amount of damages awarded to the Company or the Defendants/Claimant, if any, cannot be reasonably estimated and no amount has been recognized in the financial statements. Management believes it is unlikely that the outcome of these matters will have an adverse impact on its result of operations and financial condition.

On August 12, 2009 the Company received a statement of claim in the Supreme Court of British Columbia from a former employee for wrongful dismissal and breach of contract. The claim was for approximately $180,000 CDN plus an award of stock options and unspecified damages. The Company believes the claim is completely without merit and will vigorously defend its position and reputation and filed a response on September 11, 2009. Management believes 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, 2009 Unaudited

8. NEW ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

In June 2009, FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 . The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 30, 2009. Effective September 1, 2009, references made to FASB guidance throughout this consolidated financial statements have been updated for the Codification.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 815, *Derivatives and Hedging* (ASC 815). The new accounting standard requires enhanced disclosures about an entity s derivative and hedging activities and is effective for fiscal years and interim periods beginning after November 15, 2008. Since the new accounting standard only required additional disclosure, the adoption did not impact the Company s consolidated financial statements.

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

8. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)

In April 2008, the FASB issued ASC 350-30, Goodwill and Other Intangible Assets which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset. ASC 350-30 requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under ASC 350-30 and the period of expected cash flows used to measure the fair value of the asset under ASC 805-10-65-1, Business Combinations. The adoption of ASC 350-30 did not have a material impact on the Company s consolidated financial statements.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 805, *Business Combinations.* The new standard applies to all transactions or other events in which an entity obtains control of one or more businesses. Additionally, the new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement date for all assets acquired and liabilities assumed; and requires the acquirer to disclose additional information needed to evaluate and understand the nature and financial effect of the business combination. The Company s adoption of the new accounting standard did not have a material effect on the Company s consolidated financial statements.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 810, *Consolidations*. The new accounting standard establishes accounting and reporting standards for the noncontrolling interest (or minority interests) in a subsidiary and for the deconsolidation of a subsidiary by requiring all noncontrolling interests in subsidiaries be reported in the same way, as equity in the consolidated financial statements. As such, this guidance has eliminated the diversity in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. The adoption of this new accounting standard did not have a material effect on the Company s consolidated financial statements.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), which delayed the effective date for disclosing all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). This standard did not have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued new guidance for determining when a transaction is not orderly and for estimating fair value when there has been a significant decrease in the volume and level of activity for an asset or liability. The new guidance, which is now part of ASC 820, requires disclosure of the inputs and valuation techniques used, as well as any changes in valuation techniques and inputs used during the period, to measure fair value in interim and annual periods.

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

8. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)

In addition, the presentation of the fair value hierarchy is required to be presented by major security type as described in ASC 320, *Investments Debt and Equity Securities*. The provisions of the new standard were effective for interim periods ending after June 15, 2009. The adoption of the new standard on September 1, 2009 did not have a material on the Company s consolidated financial statements.

In August 2009, the FASB issued new guidance relating to the accounting for the fair value measurement of liabilities. The new guidance, which is now part of ASC 820, provides clarification that in certain circumstances in which a quoted price in an active market for the identical liability is not available, a company is required to measure fair value using one or more of the following valuation techniques: the quoted price of the identical liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique that is consistent with the principles of fair value measurements. The new guidance clarifies that a company is not required to include an adjustment for restrictions that prevent the transfer of the liability and if an adjustment is applied to the quoted price used in a valuation technique, the result is a Level 2 or 3 fair value measurement. The new guidance is effective for interim and annual periods beginning after August 27, 2009. The adoption of this standard did not have a material effect on the Company s consolidated financial statements.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 820, The new standard requires disclosures of the fair value of financial instruments for interim reporting periods of publicly traded companies in addition to the annual disclosure required at year-end. The provisions of the new standard were effective for the interim periods ending after June 15, 2009. The adoption of this standard did not have a material effect on the Company s consolidated financial statements.

In April 2009, the FASB issued new guidance for the accounting for other-than-temporary impairments. Under the new guidance, which is part of ASC 320, *Investments Debt and Equity Securities* (ASC 320), an other-than-temporary impairment is recognized when an entity has the intent to sell a debt security or when it is more likely than not that an entity will be required to sell the debt security before its anticipated recovery in value. The new guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities and is effective for interim and annual reporting periods ending after June 15, 2009. Effective September 1, 2009, the Company adopted this new guidance and the adoption did not have a material effect on the Company s consolidated financial statements.

In May 2009, the FASB issued new guidance for subsequent events. The new guidance, which is part of ASC 855, *Subsequent Events* is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this guidance sets forth the period after the

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

8. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)

balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The new guidance is effective for fiscal years and interim periods ended after June 15, 2009 and will be applied prospectively. The Company s adoption of the new guidance did not have a material effect on the Company s consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was January 14, 2010.

Accounting Standards Not Yet Effective

In June 2009, the FASB issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as SFAS No. 166, *Accounting for Transfers of Financial Assets*, *an amendment to SFAS No.* 140, has not yet been adopted into Codification. The new standard eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. The new guidance is effective for fiscal years beginning after November 15, 2009. The Company is evaluating the impact it would have to the Company s consolidated financial statements.

In June 2009, the FASB issued revised guidance on the accounting for variable interest entities. The revised guidance, which was issued as SFAS No. 167, *Amending FASB Interpretation No. 46(R),* has not yet been adopted into Codification. The revised guidance amends FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, in determining whether an enterprise has a controlling financial interest in a variable interest entity. This determination identifies the primary beneficiary of a variable interest entity as the enterprise that has both the power to direct the activities of a variable interest entity that most significantly impacts the entity s economic performance, and the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the variable interest entity. The revised guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary and eliminates the quantitative approach previously required for determining the primary beneficiary. The Company does not expect that the provisions of the new guidance will have a material effect on the consolidated financial statements.

In October 2009, the Financial Accounting Standards Board (FASB) issued Software (Topic 985): Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force and Revenue Recognition (Topic 605): Multiple-Deliverable

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

8. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)

Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force providing guidance on accounting for multiple-deliverable arrangements to enable vendors to account for products and services separately rather than as a combined unit. The guidance addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The new guidance is effective for revenue arrangements entered into or materially modified in annual periods beginning on or after June 15, 2010. Early adoption is permitted. The Company is evaluating the potential impact, if any, of the adoption of the new guidance on the Company s consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update 2009-14, Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force. This Update removes tangible products containing software components and nonsoftware components that function together to deliver the tangible product s essential functionality from the scope of the software revenue guidance in Subtopic 985-605 of the Codification. Additionally, ASU 2009-14 provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software that is not essential to the product s functionality. ASU 2009-14 requires the same expanded disclosures that are included within ASU 2009-13. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. A company is required to adopt the amendments in both ASU 2009-13 and 2009-14 in the same period using the same transition method. The Company is currently evaluating the impact of ASU 2009-14 on the consolidated financial statements.

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

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 November 30	
	2009	**2008**
	$	$
MPE®		
North America	**598,661**	437,405
Europe	**317,015**	31,472
Australasia	**55,533**	2,622
Total MPE® Revenue	**971,209**	471,499
Clipstream ® & Radio Destiny		
North America	**76,319**	80,833
Outside of North America		2,229
Total Clipstream ® & Radio Destiny Revenue	**76,319**	83,062
Total Revenue	**1,047,528**	554,561

During the three months ended November 30, 2009, three customers represented 60% of the total revenue (November 30, 2008 two customers represented 48% of the total revenue).

As at November 30, 2009, two customers represented $173,946 (40%) of the accounts receivables balance (August 31, 2009 three customers represented 59%).

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

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

10. FAIR VALUE MEASURES

FASB issued a standard which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard 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. The standard 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, accrued liabilities 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.

Destiny Media Technologies Inc.

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

Three months ended November 30, 2009 Unaudited

11. SUBSEQUENT EVENTS

Destiny's board of directors authorized a program beginning November 20, 2009 to repurchase up to 1 million shares of the company's common stock at a maximum share purchase price of $0.80 per share. As at January 13, 2010 and subsequent to the end of the quarter ending November 30, 2009, the company has purchased 194,800 shares at an average price of $.47. Future repurchases will be at times and in amounts as the company deems appropriate and will be made through open market transactions. All repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. The board approved stock repurchase program runs through November 19th, 2010. In addition to the applicable securities laws, the company will not make any purchases during a time at which its insiders are subject to a blackout from trading in the company's common shares.

In December 2009, the Company extended 300,000 stock options to a former employee. The life of stock options was extended for one year.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period s presentation.

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. 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. The Company , Destiny or we refers to the consolidated activities of all three companies.

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.

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.

OUR PRODUCTS

Destiny develops and markets solutions which enable media owners to securely distribute their digital media content globally through the internet. The Company has two main product lines: MPE® enables content to be transferred permanently to authorized recipients, so they possess it the way they would CD or DVD. Clipstream® is analogous to radio or TV where content is streamed to the viewer in a transient manner.

The MPE® Product Line

MPE® enables the secure download of audio or video to a user s computer and consists of two products: Play MPE® and PODDS.

Security is provided by patented and patent pending technologies, which give record labels the choice of locking content so that only authorized devices can play it or allowing copies, but embedding tracking information so the source of unauthorized copies can be traced:

1. Digital Locking technology: "Digital Media Distribution Method and System" (US 20020146122, WIPO 01/65796) issued on Dec. 16, 2008. This method uniquely identifies a device and permits playback of content on the authorized machine and not on any other computer or device.

2. Digital Trace: "Methods for Watermarking Media Data" (US 20080098022) was published in April 2008 and is currently pending review. Using this method a trace is embedded in each digital file identifying the source of copies.

A) Play MPE®
http://www.plaympe.com
http://www.myplaympe.com

The Play MPE® service is currently our main offering in this line and is a system for securely moving pre-release music to radio stations, media, buyers, film and TV, DJ s, stadiums, VIP s and other trusted recipients. All four Major Record Labels (Universal Music Group, Warner Music Group, EMI and Sony Music) use the Play MPE® service commercially for sending their pre-release music.

The system is highly automated where label staff, each with their own access rights, collaborate using encoder tools to upload album artwork, broadcast quality music and video, meta data, photos, marketing materials, meta data and localized copy, release dates and recipient lists. Optional email alerts that new music is available are automatically generated based on selectable templates. The system detects whether a recipient is in the system and automatically sends them an email explaining how to download the software to access the new content.

Packages of new content (music, associated graphics, music video, liner notes, etc.) automatically appear in a library of available content, custom to each recipient. The recipient would use either a browser or custom player software developed by Destiny (Mac/Windows/iPhone) to stream or download the content in a locked format. If they have the rights, they can export into any standard industry format or burn to CD. Destiny has partnered with leading radio automation vendors so that song meta data can be exported into third party tools.

Proprietary Play MPE® player access software is currently available in twenty-four languages in versions for web browsers, the Mac, PC and the iPhone.

B) Podds
http://www.podds.ca

This online music store solution facilitates the sale of new music through proprietary player software with integrated e-commerce functionality. It was originally launched as a solution to sell music Destiny licensed to DJ s, clubs and internet enabled digital jukeboxes, but based on a low return on investment, management has reduced focus on this opportunity. The system remains as a proof of concept which is available to be licensed to third party music retailers who could license and rebrand the solution to securely sell music to their customers.

The Clipstream® Product Line

Clipstream® is an innovative "instant play" solution for playback of streaming audio and streaming video. Unlike Windows Media Player or Quicktime, there is no player that has to launch for the content to playback. Unlike Flash, multiple Clipstream® objects can play on the same page and the content can be uploaded to any website. Clipstream® uses up to 90% less bandwidth than these three solutions while providing a 98% playback rate, including across devices other than computers. Because there is no special player or server and everything is standards based, Clipstream® content never has to be re-encoded as technologies change.

The Clipstream® software suite enables audio or video content to be streamed so that the media plays instantly and automatically when the user initiates playback. Creating streaming video content with other technologies can be a complicated process and in most cases, users are required to purchase and maintain streaming servers. With Clipstream®, content owners simply encode the content into the Clipstream® format, then upload to an existing website. Clipstream® is a standards based technology built around the cross platform Java language, supported natively by most operating systems and devices.

Clipstream® encoded content plays instantly in most cases, without requiring the user to download CODECS or player software. This results in a much higher play rate for site owners and because there is no player executable, users are not exposed to viruses, trojan horses or unstable code that could crash their computer.

A) Licenses http://www.clipstream.com	E) Server licenses http://www.clipstreamserver.com
B) On demand audio streaming http://www.clipstreamaudio.com	F) Telephone streaming http://www.audio-mail.com
C) Internet Radio http://www.pirateradio.com	G) Video Survey Solutions http://www.surveyclip.com
D) Internet TV http://live.clipstream.com	H) Advertising Solutions http://www.clipstreamad.com

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2009

Revenue

Total revenue grew by 20% over the previous quarter to $1,047,528 and was 89% higher than the same quarter in fiscal 2009 (November 30, 2009 - $554,561). Quarterly revenue has grown in all but one quarter over the previous three years due to the success of our Play MPE® digital delivery service and has resulted in an average increase of approximately 18% per quarter (over 90% per annum). Over this time, Play MPE® revenue has averaged approximately 27% quarter over quarter revenue growth.

Play MPE® revenue for the quarter ending November 30, 2009 reached $971,209 (November 30, 2008 -$471,499) or more than double the amount from the previous year and 22% higher than the previous quarter. The increases in revenue from Play MPE® has been realized across the spectrum of our customer base as the industry continues to transition its delivery method to Play MPE®. We expect that Play MPE® service fees to continue to grow throughout all geographic regions in 2010.

Compared to the immediately preceding quarter, Play MPE® revenue increases include; a 17% increase in North American Major Record Label revenue, a 7% increase in North American independent record label revenue, a 34% increase in European based revenue, and a 17% increase in Australasia revenue expansion.

During the three months ended November 30, 2009 approximately 7% of our revenues are derived from sales of our Clipstream® software.

Operating Expenses

Overview

As our technologies and products are developed and maintained in-house, the majority of our expenditures is on salaries and wages and associated expenses; office space, supplies and benefits. Our operations are primarily conducted in Canada and the majority of our costs are incurred in Canadian dollars while the majority of our revenue is in Euros and US dollars. As a result, our results of operations are impacted by fluctuations in the relevant exchange rates.

Operating expenditures have increased over the previous quarter by approximately 14% and by 12% over the same quarter of previous year. The increase from both comparative quarters is due in part to the strengthening of the Canadian dollar relative to the US dollar.

Included in our expenses are non-cash amortization and stock compensation expense of $11,646 (2009 -$38,752) leading to a net income before non-cash items of $334,326 for the three months ended November 30 2009.

The rent expense of $78,280 is offset by our sub-lease rental income of $28,960 which is included in Other income in the Statement of Operations.

General and administrative	**30-Nov 2009** (3 months)	**30-Nov 2008** (3 months)	**$ Change**	**% Change**
Wages and benefits	97,696	99,522	(1,826)	(1.8%)
Rent	17,912	17,703	209	1.2%
Telecommunications	6,481	4,829	1,652	34.2%
Bad debt (recovery)	(25,574)	20,847	(46,421)	(222.7%)
Office and miscellaneous	23,305	(5,673)	28,978	(510.8%)
Professional fees	125,910	45,156	80,754	178.8%
	245,730	182,384	63,346	34.7%

Our general and administrative expenses consist primarily of salaries and related personnel costs including overhead, professional fees, and other general office expenditures. The increase in professional fees is due primarily to an increase of the volume of litigation work encountered during the quarter.

Sales and marketing	**30-Nov 2009** (3 months)	**30-Nov 2008** (3 months)	**$ Change**	**% Change**
Wages and benefits	108,496	143,094	(34,598)	(24.2%)
Rent	17,580	20,498	(2,918)	(14.2%)
Telecommunications	6,361	5,591	770	13.8%
Meals and entertainment	657	553	104	18.8%
Travel	6,526	9,950	(3,424)	(34.4%)
Advertising and marketing	64,926	75,234	(10,308)	(13.7%)
	204,546	254,920	(50,374)	(19.8%)

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. We experienced a slight decrease in total costs due in part to exchange rate improvements and in part to one time costs experienced in the prior year. We have structured the Play MPE® digital delivery system in a manner which facilitates internal marketing with our customers. We have also partnered with industry leaders including our agreement to

integrate with RCS Sound Software, the world s largest broadcast software provider, announced immediately following the current quarter, which facilitates our global expansion.

Research and development	**30-Nov 2009** (3 months)	**30-Nov 2008** (3 months)	**$ Change**	**% Change**
Wages and benefits	233,385	183,330	50,055	27.3%
Rent	42,789	32,610	10,179	31.2%
Telecommunications	15,483	8,895	6,588	74.1%
	291,657	224,835	66,822	29.7%

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment.

Amortization

Amortization expense arose from fixed assets and other assets. Amortization increased to $11,490 for the three months ended November 30, 2009 from $7,937 for the three months ended November 30, 2008, an increase of $3,553 or 45%.

Other earnings and expenses

Other income decreased to $28,960 for the three months ended November 30, 2009 from $32,137 for the three months ended November 30, 2008, a decrease of $3,177.

Interest income increased to $948 for the three months ended November 30, 2009 from $791 for the three months ended November 30, 2008, an increase of $157.

Interest expense increased to $1,333 for the three months ended November 30, 2009 from $956 for the three months ended November 30, 2008, an increase of $377.

Net income (loss)

During the quarter, we have net income of $322,680 (November 30, 2008 loss of $83,543). The profit realized during the quarter is the result of steady improvements of the Company s revenue. Earnings before interest taxes depreciation and amortization (EBITDA) reached $335,659, an increase of 8% over the immediately preceding quarter.

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $425,534 as at November 30, 2009 (November 30, 2008 - $151,636). We had a working capital surplus of $993,106 as at November 30, 2009 compared to a working capital deficiency of $106,770 as at November 30, 2008. The steady improvements in our cash position seen in fiscal 2009 (year ending August 31, 2009), has continued into fiscal 2010. Cash has increased by more than $170,000 compared to year ending August 31, 2009 in spite of a reduction in accounts payable of in excess of $200,000 and repayments of shareholder loans of approximately $70,000.

CASHFLOWS

Net cash generated in operating activities was $245,504 for the quarter ended November 30, 2009, compared to $13,008 used for the quarter ended November 30, 2008. The increase is mainly due to an increase in total revenue of approximately $500,000.

The cash used in investing activities was $5,438 for the quarter ended November 30, 2009. There was no cash used or provided in investing activities for the quarter ended November 30, 2008.

Net cash used by financing activities was $72,612 for the quarter ended November 30, 2009 compared to net cash provided of $85,226 for the quarter ended November 30, 2008.

Our cash from operation was able to provide sufficient funds during the fiscal year end of August 31, 2009 and continue to the fiscal year of 2010. We are encouraged by our revenue growth in first quarter of 2010 as our record label clients incorporate Play MPE® into their work flow.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

In June 2009, FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 . The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 30, 2009. Effective September 1, 2009, references made to FASB guidance throughout this consolidated financial statements have been updated for the Codification.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 815, *Derivatives and Hedging* (ASC 815). The new accounting standard requires enhanced disclosures about an entity s derivative and hedging activities and is effective for fiscal years and interim periods beginning after November 15, 2008. Since the new accounting standard only required additional disclosure, the adoption did not impact the Company s consolidated financial statements.

In April 2008, the FASB issued ASC 350-30, Goodwill and Other Intangible Assets which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset. ASC 350-30 requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under ASC 350-30 and the period of expected cash flows used to measure the fair value of the asset under ASC 805-10-65-1, Business Combinations. The adoption of ASC 350-30 did not have a material impact on the Company s consolidated financial statements.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 805, *Business Combinations.* The new standard applies to all transactions or other events in which an entity obtains control of one or more businesses. Additionally, the new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement date for all assets acquired and liabilities assumed; and requires the acquirer to disclose additional information needed to evaluate and understand the nature and financial effect of the business combination. The Company s adoption of the new accounting standard did not have a material effect on the Company s consolidated financial statements.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 810, *Consolidations*. The new accounting standard establishes accounting and reporting standards for the noncontrolling interest (or minority interests) in a subsidiary and for the deconsolidation of a subsidiary by requiring all noncontrolling interests in subsidiaries be reported in the same way, as equity in the consolidated financial statements. As such, this guidance has eliminated the diversity in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. The adoption of this new accounting standard did not have a material effect on the Company s consolidated financial statements.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), which delayed the effective date for disclosing all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). This standard did not have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued new guidance for determining when a transaction is not orderly and for estimating fair value when there has been a significant decrease in the volume and level of activity for an asset or liability. The new guidance, which is now part of ASC 820, requires disclosure of the inputs and valuation techniques used, as well as any changes in valuation techniques and inputs used during the period, to measure fair value in interim and annual periods. In addition, the presentation of the fair value hierarchy is required to be presented by major security type as described in ASC 320, *Investments Debt and Equity Securities*. The provisions of the new standard were effective for interim periods ending after June 15, 2009. The adoption of the new standard on September 1, 2009 did not have a material on the Company s consolidated financial statements.

In August 2009, the FASB issued new guidance relating to the accounting for the fair value measurement of liabilities. The new guidance, which is now part of ASC 820, provides clarification that in certain circumstances in which a quoted price in an active market for the identical liability is not available, a company is required to measure fair value using one or more of the following valuation techniques: the quoted price of the identical liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique that is consistent with the principles of fair value measurements. The new guidance clarifies that a company is not required to include an adjustment for restrictions that prevent the transfer of the liability and if an adjustment is applied to the quoted price used in a valuation technique, the result is a Level 2 or 3 fair value measurement. The new guidance is effective for interim and annual periods beginning after August 27, 2009. The adoption of this standard did not have a material effect on the Company s consolidated financial statements.

Effective September 1, 2009, the Company adopted a new accounting standard included in ASC 820, The new standard requires disclosures of the fair value of financial instruments for interim reporting periods of publicly traded companies in addition to the annual disclosure required at year-end. The provisions of the new standard were effective for the interim periods ending after June 15, 2009. The adoption of this standard did not have a material effect on the Company s consolidated financial statements.

In April 2009, the FASB issued new guidance for the accounting for other-than-temporary impairments. Under the new guidance, which is part of ASC 320, *Investments Debt and Equity Securities* (ASC 320), an other-than-temporary impairment is recognized when an entity has the intent to sell a debt security or when it is more likely than not that an entity will be required to sell the debt security before its anticipated recovery in value. The new guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities and is effective for interim and annual reporting periods ending after June 15, 2009. Effective September 1, 2009, the Company adopted this new guidance and the adoption did not have a material effect on the Company s consolidated financial statements.

In May 2009, the FASB issued new guidance for subsequent events. The new guidance, which is part of ASC 855, *Subsequent Events* is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The new guidance is effective for fiscal years and interim periods ended after June 15, 2009 and will be applied prospectively. The Company s adoption of the new guidance did not have a material effect on the Company s consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was January 14, 2010.

Accounting Standards Not Yet Effective

In June 2009, the FASB issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as SFAS No. 166, *Accounting for Transfers of Financial Assets*, *an amendment to SFAS No.* 140, has not yet been adopted into Codification. The new standard eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. The new guidance is effective for fiscal years beginning after November 15, 2009. The Company is evaluating the impact it would have to the Company s consolidated financial statements.

In June 2009, the FASB issued revised guidance on the accounting for variable interest entities. The revised guidance, which was issued as SFAS No. 167, *Amending FASB Interpretation No. 46(R),* has not yet been adopted into Codification. The revised guidance amends FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, in determining whether an enterprise has a controlling financial interest in a variable interest entity. This determination identifies the primary beneficiary of a variable interest entity as the enterprise that has both the power to direct the activities of a variable interest entity that most significantly impacts the entity s economic performance, and the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the variable interest entity. The revised guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary and eliminates the quantitative approach previously required for determining the primary beneficiary. The Company does not expect that the provisions of the new guidance will have a material effect on the consolidated financial statements.

In October 2009, the Financial Accounting Standards Board (FASB) issued Software (Topic 985): Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force and Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force providing guidance on accounting for multiple-deliverable arrangements to enable vendors to account for products and services separately rather than as a combined unit. The guidance addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The new guidance is effective for revenue arrangements entered into or materially modified in annual periods beginning on or after June 15, 2010. Early adoption is permitted. The Company is evaluating the potential impact, if any, of the adoption of the new guidance on the Company s consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update 2009-14, Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force. This Update removes tangible products containing software components and nonsoftware components that function together to deliver the tangible product s essential functionality from the scope of the software revenue guidance in Subtopic 985-605 of the Codification. Additionally, ASU 2009-14 provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software that is not essential to the product s functionality. ASU 2009-14 requires the same expanded disclosures that are included within ASU 2009-13. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. A company is required to adopt the amendments in both ASU 2009-13 and 2009-14 in the same period using the same transition method. The Company is currently evaluating the impact of ASU 2009-14 on the consolidated 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.

- 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 November 30, 2009.

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.

Management concluded that there are material weaknesses in internal controls over financial reporting, which are as follows:

- Due to the limited number of staff resources, the Company believes there are instances where a lack of segregation of duties exist to provide effective controls;
- Our audit committee does not have a financial expert and is not independent; and
- Due to the limited number of staff resources, the Company may not have the necessary in- house knowledge to address complex accounting and tax issues that may arise.

As a result of these weaknesses, the Company s internal controls over financial reporting are not effective. The weaknesses and their related risks are not uncommon in a company the size of Destiny Media because of limitations in size and number of staff.

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

The Company is involved in three actions with a competitor in Canada (Yangaroo Inc. Yangaroo , formerly Musicrypt Inc.) regarding various patent claims as described below:

a) On March 7, 2006, the Company filed a statement of claim in the Federal Court of Canada against Yangaroo (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. On June 7, 2006, the Company s counsel received a statement of defense and counterclaim from the Defendant, requesting specified damages or audited profits from the Play MPE® system sourced to Canada.

b) On May 3, 2007, the Company filed a claim in Ontario Superior Court against the Defendant (Yangaroo Inc.), Chief Executive Officer of the Defendant and Chief Financial Officer of the Defendant (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. On June 7, 2007, the Defendant filed a statement of defense and counterclaim against the Company for the same amount and for the same causes.

c) On May 12, 2009, the Company was served with a complaint in the United States District Court for the Eastern District of Wisconsin by the Defendant (the Claimant) in the Canadian litigation above, alleging that the Company infringes on its recently issued one method claim in United States Patent No. 7,529,712. On September 18, 2009 the Company filed an Answer, which included a statement of its defenses. One defense the Company has asserted is the patent claim has limitations regarding operations on a server and as the Company s servers are outside the United States, the Claimant s U.S. patent cannot be asserted against the Company. On October 13, 2009 the U.S. District Court issued a scheduling order that limits discovery in the U.S. case to the Company s defense of extraterritoriality and that the Court will entertain a motion for summary judgment by the Company dismissing the case on that basis alone, prior to further discovery, if any. It is management s opinion that the Claimant was sufficiently aware of the location of Company s servers well prior to the date it brought suit and, given Claimant s duty to investigate the law regarding extraterritoriality prior to bringing suit, this case is improper. As a result, the Company will be seeking legal costs from the Claimant, if successful. In response to the Company's first requested responses to admit, on January 7, 2010, the Claimant's attorneys formally admitted on the court record that the Claimant has no evidence that Company's servers are in the U.S. and that based on the evidence in the case, Destiny's servers are not located in the United States.

The amount of damages awarded to the Company or the Defendants/Claimant, if any, cannot be reasonably estimated and no amount has been recognized in the financial statements. Management believes it is unlikely that the outcome of these matters will have an adverse impact on its result of operations and financial condition. On August 12, 2009 the Company received a statement of claim in the Supreme Court of British Columbia from a former employee for wrongful dismissal and breach of contract. The claim was for approximately $180,000 CDN plus an award of stock options and unspecified damages. The Company believes the claim is completely without merit and will vigorously defend its position and reputation and filed a response on September 11, 2009. Management believes it is unlikely that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Item 1 - Risk Factors in our Form 10-K for the fiscal year ended August 31, 2009 filed with the SEC on November 30, 2009. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially, however, they are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

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, 2009.

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.

On January 11, 2010 we filed form 8-K for changes in registrant s certifying accountant. BDO Dunwoody LLP, Chartered Accountants (BDO) is retained as the sole principal independent registered accountant for the Company effectively December 21, 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: January 14, 2010

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

/s/ Fred Vandenberg
Frederick Vandenberg, Chief Financial Officer