

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-Q  
July 15, 2010

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

**FORM 10-Q**

(Mark One)

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

For the nine months ended May 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-028259

**DESTINY MEDIA TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

**COLORADO**

(State or other jurisdiction of incorporation or organization)

**84-1516745**

(IRS Employer Identification No.)

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

(Address of Principal Executive Offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months and (2) has been subject to the above filing requirements for the past 90 days.

Yes  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)

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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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
**51,192,847 Shares of \$0.001 par value common stock outstanding as of July 14, 2010.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS.**

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Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Nine months ended May 31, 2010

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## Destiny Media Technologies Inc.

## CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

Unaudited

As at

	May 31, 2010	August 31, 2009
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	294,578	253,100
Accounts and other receivables, net of allowance for doubtful accounts of \$6,919 [August 31, 2009 \$2,289] [note 9]	514,346	502,275
Other receivables	27,574	15,120
Prepaid expenses	91,197	59,201
Deferred tax assets	450,000	450,000
<b>Total current assets</b>	<b>1,377,695</b>	<b>1,279,696</b>
Deposits	9,479	9,158
Property and equipment, net	161,654	123,770
Deferred commission costs	3,447	13,320
<b>Total assets</b>	<b>1,552,275</b>	<b>1,425,944</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable	147,958	349,164
Accrued liabilities	256,303	176,624
Shareholder loans payable [note 5]		68,681
Deferred revenue	34,514	17,198
Obligation under capital lease current portion [note 4]	10,465	9,356
<b>Total current liabilities</b>	<b>449,240</b>	<b>621,023</b>
Obligation under capital lease long term portion [note 4]	6,528	13,987
<b>Total liabilities</b>	<b>455,768</b>	<b>635,010</b>
Commitments and Contingencies [notes 4 and 7]		
<b>Stockholders equity [note 3]</b>		
Common stock, par value \$0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 51,342,024 shares		
[August 31, 2009 51,723,647 shares]	51,342	51,725
Additional paid-in capital	9,181,513	9,492,168
Held for cancellation	(102,963)	
Accumulated deficit	(8,206,836)	(8,900,614)
Accumulated other comprehensive income	173,451	147,655
<b>Total stockholders equity</b>	<b>1,096,507</b>	<b>790,934</b>
<b>Total liabilities and stockholders equity</b>	<b>1,552,275</b>	<b>1,425,944</b>

See accompanying notes



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Expressed in United States dollars)

Unaudited

	<b>Three Months Ended May 31, 2010 \$</b>	Three Months Ended May 31, 2009 \$	<b>Nine Months Ended May 31, 2010 \$</b>	Nine Months Ended May 31, 2009 \$
<b>Revenue</b> [note 9]	<b>952,383</b>	665,829	<b>2,869,775</b>	1,687,878
<b>Operating expenses</b>				
General and administrative	<b>255,487</b>	181,749	<b>768,013</b>	540,654
Sales and marketing	<b>184,801</b>	193,044	<b>578,289</b>	634,256
Research and development	<b>283,757</b>	206,559	<b>879,668</b>	652,823
Amortization	<b>14,669</b>	10,675	<b>38,789</b>	27,407
	<b>738,714</b>	592,027	<b>2,264,759</b>	1,855,140
Income (loss) from operations	<b>213,669</b>	73,802	<b>605,016</b>	(167,262)
<b>Other income (expenses)</b>				
Other income	<b>30,156</b>	12,755	<b>88,466</b>	72,877
Interest income	<b>641</b>	1,858	<b>2,706</b>	2,964
Interest and other expense	<b>(537)</b>	(942)	<b>(2,410)</b>	(2,531)
Gain on settlement of debt		15,008		15,008
<b>Net income (loss)</b>	<b>243,929</b>	102,481	<b>693,778</b>	(78,944)
<b>Net income (loss) per common share, basic and diluted</b>				
	<b>0.00</b>	0.00	<b>0.01</b>	(0.00)
<b>Weighted average common shares outstanding:</b>				
<b>Basic</b>	<b>51,617,515</b>	51,638,140	<b>51,789,513</b>	51,445,259
<b>Diluted</b>	<b>52,300,725</b>	51,638,140	<b>52,019,752</b>	51,445,259

See accompanying notes



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS EQUITY**

(Expressed in United States dollars)

Unaudited

	Common stock		Additional	Common Stock	Accumulated	Accumulated	Total
	Shares	Amount	paid-in	held	deficit	other	stockholders
	#	\$	capital	for cancellation	\$	income	equity
			\$	\$		\$	\$
<b>Balance, August 31, 2009</b>	<b>51,723,647</b>	<b>51,725</b>	<b>9,492,168</b>		<b>(8,900,614)</b>	<b>147,655</b>	<b>790,934</b>
Net income					693,778		693,778
Foreign currency translation gain						25,796	25,796
Common stock issued on options exercised (Note 3a)	25,000	25	6,225				6,250
Common stock issued on warrants exercised (Note 3d)	336,000	336	(336)				
Common stock repurchased and cancelled (Note 3b)	(742,623)	(744)	(342,177)				(342,921)
Stock options repurchased and cancelled (Note 3c)			(30,000)				(30,000)
Common stock held for cancellation (Note 3b)				(102,963)			(102,963)
Stock based compensation			55,633				55,633
<b>Balance, May 31, 2010</b>	<b>51,342,024</b>	<b>51,342</b>	<b>9,181,513</b>	<b>(102,963)</b>	<b>(8,206,836)</b>	<b>173,451</b>	<b>1,096,507</b>

*See accompanying notes*

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

	<b>Nine Months Ended May 31, 2010 \$</b>	<b>Nine Months Ended May 31, 2009 \$</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period	693,778	(78,944)
Items not involving cash:		
Amortization	38,789	27,407
Deferred commission costs	10,415	(15,156)
Stock-based compensation	55,633	36,289
Loss on disposal of property and equipment		2,187
Gain on settlement of debt		(15,008)
Changes in non-cash working capital:		
Accounts receivable	5,501	(17,469)
Other receivables	(11,927)	(57,625)
Prepaid expenses	(30,135)	(5,731)
Accounts payable	(227,725)	109,209
Accrued liabilities	82,057	(24,243)
Deferred revenue	16,835	(14,197)
<b>Net cash provided by (used in) operating activities</b>	<b>633,221</b>	<b>(53,281)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(67,493)	(3,124)
<b>Net cash used in investing activities</b>	<b>(67,493)</b>	<b>(3,124)</b>
<b>FINANCING ACTIVITIES</b>		
Repayments on capital lease obligations	(7,219)	(3,776)
Proceeds from exercise of stock options	6,250	100,000
Proceeds of shareholder loans		191,976
Repurchase of shares and options	(475,884)	
Repayments of shareholder loans	(71,601)	(168,635)
<b>Net cash provided (used) by financing activities</b>	<b>(548,454)</b>	<b>119,565</b>
Effect of foreign exchange rate changes on cash	24,204	(3,845)
<b>Net increase (decrease) in cash</b>	<b>41,478</b>	<b>59,315</b>
Cash, beginning of period	253,100	91,369
<b>Cash, end of period</b>	<b>294,578</b>	<b>150,684</b>
<b>Supplementary disclosure</b>		
Cash paid for interest	2,410	2,531
<b>Non-cash investing activity</b>		
Property and equipment acquired under capital lease		27,197

*See accompanying notes*

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**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**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 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 nine months ended May 31, 2010 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/A for the year ended August 31, 2009.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**3. SHARE CAPITAL**

**[a] Issued and Authorized**

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

During the nine months ended May 31, 2010, 336,000 shares were issued in a cashless exercise of 600,000 warrants with an exercise price of \$0.22. 25,000 shares were issued in an exercise of 25,000 options with cash proceeds of \$6,250.

**[b] Cancelled**

During the nine months ended May 31, 2010, the Company repurchased 1,000,000 shares which it paid \$445,884. As of May 31, 2010, the 742,623 shares have been cancelled and the 257,377 shares were cancelled subsequent to May 31, 2010.

**[c] 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. A total of 766,334 common shares remain eligible for issuance under the plans. 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.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

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

A summary of option activity under the Plans as of August 31, 2009, and changes during the nine- month period ended May 31, 2010 is presented below:

<b>Options</b>	<b>Shares</b>	<b>Average Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Intrinsic Value \$</b>
Outstanding at August 31, 2009	3,939,000	0.44	2.06	80,190
Granted	100,000	0.50	-	-
Exercised	(25,000)	0.25	-	4,000
Repurchased and cancelled	(150,000)	0.25	-	37,500
Expired	(50,000)	0.50	-	-
Outstanding at May 31, 2010	3,814,000	0.45	1.70	164,360
Vested and exercisable at May 31, 2010	3,761,917	0.45	1.66	164,360

3

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**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 May 31, 2010.

During the nine months ended May 31, 2010, total stock-based compensation expense related to employees of \$55,633 is reported in the statement of operations as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>May 31</b>	<b>May 31</b>	<b>May 31</b>	<b>May 31</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Stock-based compensation:</b>				
General and administrative	<b>654</b>	702	<b>19,195</b>	10,734
Sales and marketing	<b>219</b>	259	<b>14,453</b>	12,593
Research and development	<b>428</b>	487	<b>21,985</b>	12,962
<b>Total stock-based compensation</b>	<b>1,301</b>	1,448	<b>55,633</b>	36,289

4

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

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

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>May 31 2010</b>	<b>May 31 2009</b>	<b>May 31 2010</b>	<b>May 31 2009</b>
Expected term of stock options (years)	<b>2.5</b>		<b>0.55-2.5</b>	1.6-2.5
Expected volatility	<b>83%</b>		<b>76%-86%</b>	88%-96%
Risk-free interest rate	<b>0.88%</b>		<b>0.2%-1%</b>	0.9%-1%
Dividend yield				

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

During the nine months ended May 31, 2010, 100,000 options were granted, 300,000 options were extended to one more year and 150,000 options were extended to five more years. The weighted-average grant-date fair value of options granted and extended during the nine months period ended May 31, 2010 were \$0.21 and \$0.11, respectively (May 31, 2009 \$0.13 and Nil). As a result of the extension of the life of the 450,000 options, the Company recorded an incremental value of \$48,729 on the statements of operations in the quarter ended February 28, 2010.

During the nine months ended May 31, 2010, 150,000 options at a weighted average exercise price of \$0.25 were repurchased by the Company for a consideration of \$30,000.

As of May 31, 2010 there was \$10,446 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 22 months.



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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

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

As at May 31, 2010, the Company has the following common shares warrants outstanding:

	<b>Number of Common Shares Issuable</b>	<b>Exercise Price \$</b>	<b>Date of Expiry</b>
\$0.22 Warrants	350,000	0.22	August 25, 2011
\$0.40 Warrants	361,000	0.40	February 28, 2012
\$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
	7,246,250		

\*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.

The intrinsic value for these warrants is \$59,500 as at May 31, 2010.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**4. COMMITMENTS**

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

\$

2010	29,749
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The Company has entered into sublease agreements to offset the cost commitments above. All sublease income has been reported in other income in the statement of operations and has not been reflected in the amounts disclosed above.

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

	\$
2010	2,952
2011	11,810
2012	3,842
Total lease payments	18,604
Less: Amounts representing interest	(1,611)
Balance of obligation	16,933
Less: Current portion	(10,465)
Long term portion	6,528

**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 \$1,422 (CDN\$1,500).

During the nine months ended May 31, 2010, 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 nine months ended May 31, 2010, the Company paid interest expense of \$621 to related parties (2009: \$99).

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**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 May 31, 2010. 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), 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)

Unaudited

Nine months ended May 31, 2010

**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. On February 12, 2010, the Company filed a motion to dismiss this complaint.

On June 7, 2010, the Honorable William C. Griesbach ruled in Destiny's favor to dismiss the claim in its entirety. As Destiny believes this claim was filed last year without any realistic chance of success, the Company is seeking legal fees and other costs from Yangaroo Inc.

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)

Unaudited

Nine months ended May 31, 2010

**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 materially 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.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**8. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)**

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 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 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.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**8. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)**

Accounting Standards Not Yet Effective

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.

In February 2010, the FASB issued Accounting Standards Update 2010-09, Subsequent Events . This Update clarifies the financial statement issuance dates that potentially conflict with some of the Securities and Exchange Commission s guidance. The amendment is effective for interim or annual periods ending after June 15, 2010. The Company is currently evaluating the impact of this update on the consolidated financial statements.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**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:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>May 31 2010</b>	<b>May 31 2009</b>	<b>May 31 2010</b>	<b>May 31 2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>MPE®</b>				
North America	<b>539,576</b>	427,023	<b>1,616,237</b>	1,205,874
Europe	<b>303,530</b>	125,674	<b>914,253</b>	181,504
Australasia	<b>46,962</b>	44,023	<b>139,016</b>	74,273
Total MPE®	<b>890,068</b>	596,720	<b>2,669,506</b>	1,461,651
<b>Clipstream ® &amp; Pirate Radio</b>				
North America	<b>62,315</b>	67,975	<b>200,269</b>	221,453
Outside of North America		1,134		4,774
Total Clipstream ® & Pirate Radio	<b>62,315</b>	69,109	<b>200,269</b>	226,227
<b>Total revenue</b>	<b>952,383</b>	665,829	<b>2,869,775</b>	1,687,878

During the nine months ended May 31, 2010, three customers represented 62% of the total revenue balance (May 31, 2009 three customers represented 52% of the total revenue balance). During the three months ended May 31, 2010, three customers represented 60% of the total revenue balance (May 31, 2009 three customers represented 57% of the total revenue balance).

As at May 31, 2010, two customers represented 54% (\$293,043) of the trade receivables balance (August 31, 2009 three customers represented 59% (295,162),

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



**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2010

**10. SUBSEQUENT EVENTS**

On June 7, 2010 the United States District Court of the Eastern District of Wisconsin ruled in Destiny's favor regarding the claim outlined Note 7(c). In dismissing the claim in its entirety the Honorable William C. Griesbach stated that the Claimant's patent does not embrace a method of manufacturing the content prior to distributing it. It necessarily follows that Destiny is entitled to summary judgment of non-infringement.

On June 22, 2010, the Company filed a motion for costs against Yangaroo Inc. The Company believes that the Claimant knew, or should have known, their argument had no legal merit and that management of Yangaroo Inc. filed the claim in spite of this knowledge for spurious reasons. This type of lawsuit is considered a large waste of time, money, and judicial resources. Destiny is seeking reimbursement for reasonable legal and other costs as are available under Wisconsin law. No receivable has yet been recorded.

On July 6, 2010, The board of directors authorized a second tranche to repurchase up to 1.5 million shares of the company's common stock at a maximum share purchase price of \$0.80 per share. As at July 14, 2010 and subsequent to July 6, 2010, the company has purchased 49,000 shares at an average price of \$0.44. 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 June 30th, 2011. 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.

**11. 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 similar terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors described in this Quarterly Report, including the risk factors accompanying this Quarterly Report, and, from time to time, in other reports the Company files with the Securities and Exchange Commission. These factors may cause the Company's actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

**OVERVIEW AND CORPORATE BACKGROUND**

Destiny Media Technologies, Inc. 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.dсны.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:

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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.

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

#### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED MAY 31, 2010

##### Revenue

Total revenue for the nine months ended May 31, 2010 grew by 70% over the same period in the prior year to \$2,869,775 (May 31, 2009 - \$1,687,878).

The main driver of our revenue growth is the Play MPE® secure pre-release delivery service which has grown in all geographic markets with the more dramatic growth seen as a result of our expansion into Europe, Canada and Australia. The growth in revenue is driven by the growth in our Play MPE® system, where access fees have reached \$2,669,505 (May 31, 2009 - \$1,461,651) or increased by 83% over the same period of the previous year.

Play MPE® revenue from Europe for the nine months ended May 31, 2010 reached \$914,253 (May 31, 2009 - \$181,504) or increased by 404%. Play MPE® revenue from Australia for the nine months ended May 31, 2010 reached \$139,016 (May 31, 2009 - \$74,273) or increased by 87%.

On a quarterly basis, total revenue increased to \$952,383 which represents an increase of 43% over the same period in the prior year. The increase is driven by a 49% increase to Play MPE® system access fees.

Quarterly growth in Play MPE® revenue has been observed in 13 of the previous 15 quarters where we have seen an average quarter over quarter revenue growth of more than 20%, or more than 100% on an annual basis. The foundation for this growth was laid from 2003 to 2006 where the Play MPE® network was established in the United States. While Play MPE® revenue growth is dramatic, and has led to our fifth straight profitable quarter, growth has been slower than expected and we remain in the introductory stages of the system into the workflow of the music industry's pre-release distribution channel in all geographic areas.

Over the course of fiscal 2010 we have continued to integrate the system into various networks of recipients, global security associations and have increased awareness throughout our projected revenue base.

Approximately one third of our revenue is denominated in Euros. During the course of fiscal 2010 there was a devaluation of the Euro relative to the United States dollar. This decline in value resulted in an adverse impact to our revenue. Thus our revenue growth of 43% of the same quarter in the prior year was achieved irrespective of this devaluation in the Euro.

During the nine months ended May 31, 2010 approximately 7% of our total revenues are derived from sales of our Clipstream® software.

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## 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.

Total operating expenditures for the nine months ended May 31, 2010 has increased by 22% over the same period in the prior year to \$2,264,759 (2009 - \$1,855,140). While costs have increased due to the expanded infrastructure and activity of our Play MPE® system, the increase is due primarily to a devaluation of the US dollar relative to the Canadian dollar and an increase in professional fees.

Through the first nine months of operations in fiscal 2010, the Company has made a number very significant advances in developing the foundation for a global system.

Firstly, in December 2009, RCS <http://www.rcsworks.com/en/default.aspx>, the world's largest broadcast software company, announced an agreement with Destiny to deliver new music to radio stations on five continents. With over 9,000 customers across its product lines, RCS is the leading supplier of radio automation and scheduling software, marketed under the brands Selector, GSelector and NexGen Digital. Through the Play MPE system, our record label clients will have an instant distribution channel to radio station clients of RCS. The completed automated integration is expected to be complete in the latter half of the fourth quarter of fiscal 2010.

Secondly, the Company has integrated its proprietary patent pending watermark into the International Federation of the Phonographic Industry's (IFPI) internet search engine. Headquartered in London, UK, the IFPI is the organization that represents the interests of the recording industry worldwide and one of its missions is to safeguard the rights of record producers. Its services to members include legal policy advice (lobbying), anti-piracy enforcement, litigation and regulatory affairs, market research and communications support. With this integration, the source of any content made available on the internet and detected by the IFPI's search engine can be identified and appropriate action can be taken. Where security is important, this integration represents an enormous advantage over all other forms of distribution of audio content (digital or otherwise).

And thirdly, completed near the end of our third quarter, the Company has integrated the Play MPE® distribution service into the British Broadcasting Corporation's (BBC) radio division. The BBC is the largest broadcasting organization in the world and this represents another milestone in global expansion. As the first and, currently, only pre-release distribution service to be digitally connected to the BBC, Play MPE® adds another dimension in simplifying pre-release distribution to our clients.

Though a rise in the Canadian relative to the US dollar can have an adverse impact on the Company, the impact over the course the short term to medium term is not expected to be significantly and indeed may be positive. Management is considering alternatives to mitigate any downside risks associated with currency fluctuations.

The total increase in professional fees (approximately \$184,000) is primarily associated with US litigation. In May 2009, Yangaroo Inc. filed a claim in US District Court against Destiny for patent infringement. In February 2010, Destiny filed a motion for summary dismissal of this claim as the Company believed the case was initiated without a reasonable factual basis for asserting infringement. In June 2010, the district court agreed with Destiny, this motion was successful and the claim has been dismissed. Destiny has filed a motion seeking attorney's fees and costs of the litigation from Yangaroo Inc.



Included in our expenses are non-cash amortization and stock compensation expense of \$94,422 (2009 - \$63,696) leading to a net income before non-cash items of \$788,200 for the nine months ended May 31, 2010. Rent expense of \$227,807 is offset by our sub-lease rental income of \$88,466 which is included in Other income in the Statement of Operations.

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On a quarterly basis, operating expenditures have decreased over the previous quarter (our second quarter ending February 28, 2010) by approximately 4% and increased by 25% over the same quarter of the previous year.

<b>General and administrative</b>	<b>31-May 2010</b> (9 months)	<b>31-May 2009</b> (9 months)	<b>\$ Change</b>	<b>% Change</b>
Wages and benefits	262,460	271,166	(8,706)	(3.2%)
Rent	48,264	52,773	(4,509)	(8.5%)
Telecommunications	16,540	15,880	660	4.2%
Bad debt	(20,894)	15,804	(36,698)	(232.2%)
Office and miscellaneous	138,595	45,945	92,650	201.7%
Professional fees	323,048	139,086	183,962	132.3%
	768,013	540,654	227,359	42.1%

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 aforementioned litigation work encountered during the quarter. The increase in office and miscellaneous is mainly due to the foreign exchange losses on receivables. Management experienced a recovery of older accounts receivable that were previously allowed in our provision for bad debts. We have tightened up credit policies which are expected to reduce this expenditure going forward.

<b>Sales and marketing</b>	<b>31-May 2010</b> (9 months)	<b>31-May 2009</b> (9 months)	<b>\$ Change</b>	<b>% Change</b>
Wages and benefits	291,238	288,532	2,706	0.9%
Rent	49,873	53,699	(3,826)	(7.1%)
Telecommunications	17,092	16,159	933	5.8%
Meals and entertainment	5,562	658	4,904	745.3%
Travel	21,600	36,895	(15,295)	(41.5%)
Advertising and marketing	192,924	238,313	(45,389)	(19.0%)
	578,289	634,256	(55,967)	(8.8%)

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 decrease in total costs due in part to marketing 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 in the previous quarter, which facilitates our global expansion.

<b>Research and development</b>	<b>31-May 2010</b> (9 months)	<b>31-May 2009</b> (9 months)	<b>\$ Change</b>	<b>% Change</b>
Wages and benefits	705,143	512,203	192,940	37.7%
Rent	129,670	99,682	29,988	30.1%
Telecommunications	44,855	29,996	14,859	49.5%
Research and development	-	10,942	(10,942)	(100.0%)
	879,668	652,823	226,845	34.7%

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The increase is primarily due to additional staff.

### **Amortization**

Amortization expense arose from property and equipment. Amortization increased to \$38,789 for the nine months ended May 31, 2010 from \$27,407 for the nine months ended May 31, 2009, an increase of \$11,382 or 28%.

### **Other earnings and expenses**

Other income increased to \$88,466 for the nine months ended May 31, 2010 from \$72,877 for the nine months ended May 31, 2009, an increase of \$15,589.

Interest income decreased to \$2,706 for the nine months ended May 31, 2010 from \$2,964 for the nine months ended May 31, 2009, a decrease of \$258.

Interest expense decreased to \$2,410 for the nine months ended May 31, 2010 from \$2,531 for the nine months ended May 31, 2009, a decrease of \$121.

### **Net income (loss)**

During the nine months ended May 31, 2010, we have net income of \$693,778 (May 31, 2009 loss of \$78,944). The profit realized during the period is the result of steady improvements of the Company's revenue. Earnings before interest income and expenses, taxes, depreciation and amortization and stock based compensation (EBITDA) reached \$787,904 for the nine months ended May 31, 2010, compared to a negative EBITDA (an EBITDA loss) of \$17,129 over the same period of the prior year.

## **LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$294,578 as at May 31, 2010 (August 31, 2009 - \$253,100). We had working capital of \$928,455 as at May 31, 2010 compared to working capital of \$658,673 as at August 31, 2009. The steady improvements in our cash position seen in fiscal 2009 (year ended August 31, 2009), has continued into fiscal 2010. Cash has increased during the year in spite of a reduction in accounts payable and accrued liabilities of in excess of \$145,000, repayments of shareholder loans of approximately \$72,000 and repurchase of shares and options of approximately \$476,000 resulting in a significantly improved working capital position along with a reduced number of shares outstanding.

### **CASHFLOWS**

Net cash generated in operating activities was \$633,221 for the nine months ended May 31, 2010, compared to \$53,281 used for the nine months ended May 31, 2009. The company is now consistently generating positive cash flow from operations. The improvement in cash flow of \$686,502 is primarily the result an increase in total revenue of approximately \$1,180,000 which is partially offset by an improvement our working capital ratio through a reduction in accounts payable.

The cash used in investing activities was \$67,493 for the nine months ended May 31, 2010. The net cash used in investing activities was \$3,124 for the nine months ended May 31, 2009. The increase is primarily due to a purchase of computer equipments.

Net cash used by financing activities was \$548,454 for the nine months ended May 31, 2010 compared to net cash provided of \$119,565 for the nine months ended May 31, 2009. The difference from prior year is the result of utilizing the positive cash flow from operations to eliminate long term loans and to repurchase common shares outstanding.



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 anticipated our cash flow from operation will continue to increase during the fiscal year of 2010.

## 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.

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 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.

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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 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.

#### Accounting Standards Not Yet Effective

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.

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In February 2010, the FASB issued Accounting Standards Update 2010-09, Subsequent Events . This Update clarifies the financial statement issuance dates that potentially conflict with some of the Securities and Exchange Commission's guidance. The amendment is effective for interim or annual periods ending after June 15, 2010. The Company is currently evaluating the impact of this update 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 the FASB Standards. 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.
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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES.**

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act ), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures at May 31, 2010.

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 disclosure controls 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.

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- 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.

On February 12, 2010, the Company filed a motion to dismiss this complaint. On June 7, 2010, the Honorable William C. Griesbach ruled in Destiny's favor to dismiss the claim in its entirety. As Destiny believes this claim was filed last year without any realistic chance of success, the Company is seeking legal fees and other costs from Yangaroo Inc.

On June 22, 2010, the Company filed a motion for costs against Yangaroo Inc. The Company believes that the Claimant knew, or should have known, their argument had no legal merit and that management of Yangaroo Inc. filed the claim in spite of this knowledge for spurious reasons. This type of lawsuit is considered a large waste of time, money, and judicial resources. Destiny is seeking reimbursement for reasonable legal and other costs as are available under Wisconsin law. No receivable has yet been recorded.

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/A for the fiscal year ended August 31, 2009 filed with the SEC on March 15, 2010. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K/A 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**

##### ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers.***

On November 20, 2009 Destiny's board of directors authorized a program 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 of May 28, 2010 The Company repurchased one million shares, representing approximately 2% of the shares outstanding at an average price of \$.446 for a total approximate cost of \$446,000. Repurchases were made at times and amount the company deemed

appropriate and were made through open market transactions in compliance with the Securities and Exchange Commission's Rule 10b-18. The following table sets forth information about our stock repurchases for the three months ended May 31, 2010.

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Period (1)	Total Number of Shares (or Units) Purchased (2)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (3)
March 1, 2010 to March 31, 2010	182,123	\$ 0.48	182,123	478,077
April 1, 2010 to April 30, 2010	99,100	\$ 0.47	99,100	378,977
May 1, 2010 to May 31, 2010	378,977	\$ 0.41	378,977	0
Total	660,200	\$ 0.44	660,200	0

(1) Based on trade date.

(2) All of these shares were repurchased pursuant to publicly announced share repurchase programs. The amount includes 402,823 shares settled before the end of the quarter and 257,377 shares settled after the end of the quarter.

(3) During the nine months ended May 31, 2010, the company repurchased a total of 1,000,000 shares pursuant to publicly announced share repurchase programs, thus completing the repurchase programs. Of the total, 742,623 had been cancelled and 257,377 were cancelled subsequent to May 31, 2010.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

In addition to publicly announced share repurchase programs, the Company repurchased 150,000 stock options at a weighted average price of \$0.25 per unit not pursuant to publicly announced share repurchase programs.

**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 Canada LLP, Chartered Accountants ( BDO ) is retained as the sole principal independent registered accountant for the Company effectively December 21, 2009.

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**SIGNATURES**

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

**DESTINY MEDIA TECHNOLOGIES INC.**

Dated: July 15, 2010

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

/s/ Fred Vandenberg  
Frederick Vandenberg, Chief Financial Officer

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