

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

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**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 six months ended February 28, 2009

**OR**

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

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

Commission file number: 0-028259

**DESTINY MEDIA TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

**COLORADO**

(State or other jurisdiction of incorporation or  
organization)

**84-1516745**

(IRS Employer Identification No.)

**800 - 570 Granville Street, Vancouver,  
British Columbia Canada V6C 3P1**  
(Address of Principal Executive Offices)

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

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

Yes [ X ] No \_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

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company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller  
reporting company)

Accelerated filer

Smaller reporting company

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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:  
**51,590,314 Shares of \$0.001 par value common stock outstanding as of February 28, 2009.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS.**

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Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Six months ended February 28, 2009

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## Destiny Media Technologies Inc.

## CONSOLIDATED BALANCE SHEETS

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

As at

	February 28, 2009	August 31, 2008
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	9,572	91,369
Accounts and other receivables, net of allowance for doubtful accounts of \$9,921 [August 31, 2008 - \$56,365]	323,697	336,734
Prepaid expenses	65,092	73,171
<b>Total current assets</b>	<b>398,361</b>	<b>501,274</b>
Deposits	41,282	48,863
Property and equipment, net of accumulated amortization of \$272,399 [August 31, 2008 - \$305,597]	101,847	111,300
<b>Total assets</b>	<b>541,490</b>	<b>661,437</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIENCY</b>		
<b>Current</b>		
Accounts payable	382,300	382,606
Accrued liabilities	189,720	245,977
Shareholder loans payable [note 6]	-	44,152
Current portion of obligation under capital lease [note 5]	7,700	-
Deferred revenue	17,578	21,311
<b>Total current liabilities</b>	<b>597,298</b>	<b>694,046</b>
Obligation for share settlement	100,000	100,000
Long term portion of obligation under capital lease [note 5]	16,281	-
<b>Total liabilities</b>	<b>713,579</b>	<b>794,046</b>
Commitments and contingencies [note 5 and 8]		
<b>Stockholders deficiency</b>		
Common stock, par value \$0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 51,590,314 shares [August 31, 2008 - 51,090,314 shares]	51,592	51,092
Issued and held for settlement: 133,333 shares		
Additional paid-in capital	9,342,472	9,208,131
Deficit	(9,692,870)	(9,511,445)
Accumulated other comprehensive income	126,717	119,613
<b>Total stockholders deficiency</b>	<b>(172,089)</b>	<b>(132,609)</b>
<b>Total liabilities and stockholders deficiency</b>	<b>541,490</b>	<b>661,437</b>
<i>See accompanying notes</i>		



## Destiny Media Technologies Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Expressed in United States dollars)

Unaudited

	<b>Three Months Ended February 28, 2009 \$</b>	Three Months Ended February 29, 2008 \$	<b>Six Months Ended February 28, 2009 \$</b>	Six Months Ended February 29, 2008 \$
<b>Revenue</b> <i>[note 10]</i>	<b>467,488</b>	359,809	<b>1,022,049</b>	716,457
<b>Operating expenses</b>				
General and administrative	<b>176,521</b>	312,853	<b>358,905</b>	631,739
Sales and marketing	<b>186,292</b>	435,796	<b>441,212</b>	921,590
Research and development	<b>221,429</b>	407,116	<b>446,264</b>	785,289
Amortization	<b>8,795</b>	11,744	<b>16,732</b>	21,545
	<b>593,037</b>	1,167,509	<b>1,263,113</b>	2,360,163
Loss from operations	<b>(125,549)</b>	(807,700)	<b>(241,064)</b>	(1,643,706)
<b>Other income (expenses)</b>				
Other income	<b>27,985</b>	23,927	<b>60,122</b>	42,115
Interest income	<b>315</b>	4,693	<b>1,106</b>	14,959
Interest and other expense	<b>(633)</b>	(5,195)	<b>(1,589)</b>	(9,243)
<b>Net loss</b>	<b>(97,882)</b>	(784,275)	<b>(181,425)</b>	(1,595,875)
<b>Net loss per common share, basic and diluted</b>	<b>-</b>	(0.02)	<b>-</b>	(0.03)
<b>Weighted average common shares</b>				
<b>outstanding, basic and diluted</b>	<b>51,590,314</b>	49,962,042	<b>51,347,220</b>	49,953,150

*See accompanying notes*



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS DEFICIENCY**

(Expressed in United States dollars)

Unaudited

	Common stock		Additional	Deficit	Accumulated	Total
	Shares	Amount	paid-in		other	stockholders
	#	\$	capital	\$	comprehensive	deficiency
			\$		income	\$
					\$	
<b>Balance, August 31, 2008</b>	51,090,314	51,092	9,208,131	(9,511,445)	119,613	(132,609)
Net loss				(181,425)		(181,425)
Foreign currency translation gain					7,104	7,104
Comprehensive loss						(174,321)
Common stock issued on options exercised	500,000	500	99,500	-	-	100,000
Stock based compensation	-	-	34,841	-	-	34,841
<b>Balance, February 28, 2009</b>	51,590,314	51,592	9,342,472	(9,692,870)	126,717	(172,089)

*See accompanying notes*

## Destiny Media Technologies Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

Unaudited

	Six Months Ended February 28, 2009 \$	Six Months Ended February 29, 2008 \$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(181,425)	(1,595,875)
Items not involving cash:		
Amortization	16,732	21,545
Stock-based compensation	34,841	162,204
Loss on disposal of capital assets	2,202	-
Changes in non-cash working capital:		
Accounts and other receivables	(41,455)	10,645
Prepaid expenses	(3,461)	43,692
Accounts payable and accrued liabilities	41,810	279,622
Deferred revenue	(451)	29
<b>Net cash used in operating activities</b>	<b>(131,207)</b>	<b>(1,078,138)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	-	(37,056)
Proceeds on disposition of capital assets	-	1,063
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(35,993)</b>
<b>FINANCING ACTIVITIES</b>		
Repayments on capital lease obligations	(1,843)	-
Proceeds from exercise of stock options	100,000	22,000
Proceeds of shareholder loans	119,403	-
Repayments of shareholder loans	(158,840)	-
<b>Net cash provided by financing activities</b>	<b>58,720</b>	<b>22,000</b>
Effect of foreign exchange rate changes on cash	(9,310)	85,924
<b>Net decrease in cash</b>	<b>(81,797)</b>	<b>(1,006,207)</b>
Cash, beginning of period	91,369	1,215,183
<b>Cash, end of period</b>	<b>9,572</b>	<b>208,976</b>
<b>Supplementary disclosure</b>		
Cash paid for interest	1,589	9,243
<i>See accompanying notes</i>		

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

**1. ORGANIZATION**

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

**2. BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with accounting principles (GAAP) generally accepted in the United States for interim financial information and in accordance with Item 310(b) of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States GAAP for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months period ended February 28, 2009 are not necessarily indicative of the results that may be expected for the year ended August 31, 2009.

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

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

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

The Company incurred a net loss of \$181,425 for the six months ended February 28, 2009, and has a working capital deficit of \$198,937 and a stockholders' deficiency of \$172,089 as at February 28, 2009, that raise doubt about its ability to continue as a going concern.

During the six months ended February 28, 2009, the Company has continued to implement its business plan of increasing revenue through the expansion of our products into new geographic areas and through increased usage by existing customers for its Play MPE® system. The Company is pursuing transaction fee based agreements with other large record labels and has also has developed an Indie Uploader system for smaller labels available on [www.myplaympe.com](http://www.myplaympe.com).

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

**2. BASIS OF PRESENTATION (cont d.)**

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

The Company may need to raise additional funds to complete its business plan due to its significant working capital deficiency. The Company's goal is to obtain these funds through internal and external financing sources including cash flows from operations, strategic partnerships, equity financings and shareholder loans. There are no assurances that the Company will be successful in achieving these goals.

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

**3. OBLIGATION FOR SHARE SETTLEMENT**

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

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

**4. SHARE CAPITAL****[a] Issued and Authorized**

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

During the six months ended February 28, 2009, 500,000 stock options were exercised for cash proceeds of \$100,000.

**[b] Stock option plans**

The Company had previously reserved a total of 8,850,000 common shares for issuance under its existing stock option plans, of which, 1,079,501 remain available for future option issuance. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

*Stock-based Payment Award Activity*

A summary of option activity under the Plans as of February 28, 2009, and changes during the six months period ended is presented below:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Average Intrinsic Value \$</b>
Outstanding at August 31, 2008	4,339,000	0.48	2.83	179,850
Granted	550,000	0.23		
Exercised	(500,000)	(0.20)		
Expired	(713,167)	(0.38)		
Outstanding at February 28, 2009	3,675,833	0.48	2.61	-
Vested and exercisable at February 28, 2009	3,596,041	0.48	2.58	-

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

**4. SHARE CAPITAL (cont d.)**

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at February 28, 2009.

As FAS123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation expense for the three months ended February 28, 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 six months ended February 28, 2009, 150,000 options were repriced from \$0.95 to \$0.50 and the unvested options became vested at the date of repricing, which resulted in incremental compensation cost of \$5,588. Total stock-based compensation expense related to employees of \$34,841 is reported in the statement of operations as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>February 28</b>	<b>February 29</b>	<b>February 28</b>	<b>February 29</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Stock-based compensation:</b>				
General and administrative	<b>1,544</b>	15,067	<b>10,032</b>	37,469
Sales and marketing	<b>470</b>	19,050	<b>12,334</b>	78,159
Research and development	<b>2,012</b>	20,009	<b>12,475</b>	46,576
<b>Total stock-based compensation</b>	<b>4,026</b>	54,126	<b>34,841</b>	162,204

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>February 28 2009</b>	<b>February 29 2008</b>	<b>February 28 2009</b>	<b>February 29 2008</b>
Expected term of stock options (years)	-	-	1.6-2.5	2.5
Expected volatility	-	-	88%-96%	85%
Risk-free interest rate	-	-	0.9%-1%	4.51%
Dividend yield	-	-	-	-

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

The weighted-average grant-date fair value of options granted during the six-month periods ended February 28, 2009 and 2008 was \$0.01 and \$0.27, respectively.

As of February 28, 2009 there was \$2,381 of unrecognized stock-based compensation cost related to employee stock options granted under the plans, which is expected to be fully recognized over the next 1- 21 months.

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

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

As at February 28, 2009, 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	950,000	0.22	August 25, 2011
\$0.40 Warrants	361,000	0.40	February 28, 2012
\$0.50 Warrants	5,886	0.50	January 31, 2010
\$0.50 Warrants	5,800,000	0.50	February 28, 2012
\$0.60 Warrants	235,250	0.60	November 30, 2009
\$0.70 Warrants	500,000	0.70	April 9, 2012
	<b>7,852,136</b>		

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

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

**5. COMMITMENTS**

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

	\$
2009	88,054
2010	217,390
	<b>305,444</b>

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.



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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

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

	\$
2009	4,944
2010	9,889
2011	9,889
2012	3,216
Total lease payments	27,938
Less: Amounts representing interest	(3,957)
Balance of obligation	23,981
Less: Current portion	(7,700)
Long term portion	16,281

**6. RELATED PARTY TRANSACTIONS**

The Company entered into a sublease agreement with a Director effective September 1, 2007 which was renewed September 1, 2008 on a month-to-month basis with a two month notice period. The term of the sublease calls for committed monthly payments of \$6,016. The sublease agreement has been terminated as of February 28, 2009. A deposit of \$12,260 has been received which was applied to the last two months lease payments under rental revenue of this quarter.

During the six months ended February 28, 2009, the Company received loans totalling \$119,403(CDN\$142,300) from three officers of the Company. These loans bear interest at 5.5% per annum, are unsecured and due on demand. During the six months ended February 28, 2009, the Company repaid \$158,840(CDN\$189,300) to these officers consisting of loans received during the period and loans outstanding as at August 31, 2008.

**7. INCOME TAX**

The Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), on September 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement 109, Accounting for Income Taxes , and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company and its subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

**7. INCOME TAX (cont d.)**

as income tax of multiple state and local jurisdictions. Based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for the tax years ended August 31, 1999 through August 31, 2008, the tax years which remain subject to examination by major tax jurisdictions as of February 28, 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.

**8. CONTINGENCIES**

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

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

On May 3, 2007, the Company filed a statement of claim in Ontario Superior Court for damages against the Defendant (Yangaroo Inc.), and executives of the Defendant, John Heaven and Clifford Hunt (collectively the Defendants) in the amount of \$25,000,000 caused by the Defendants making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act of Canada, and unlawful interference with the Company's economic relations. The statement further requests an injunction from continuing the actions instigating the statement of claim.

On June 7, 2007, the Defendant filed a statement of defense, denying the allegations set out in the statement of claim dated May 3, 2007, and counterclaim against the Company and its Chief Executive Officer, Steve Vestergaard, also in the amount of \$25,000,000, for making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act,

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

**8. CONTINGENCIES (cont d.)**

and unlawful interference with the Defendant's economic relations. The Company further requests an injunction from continuing the defamatory actions.

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

On February 19, 2009 the Company received a Statement of Claim in the Court of Queen's Bench of Alberta on behalf of a former employee living in Mexico. The claim is for approximately \$133,000 plus unspecified damages and 385,833 stock options. The Company believes the former employee's claims are without merit and will defend its position. The Company has accrued an amount which management believes is sufficient and that it is unlikely that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

**9. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

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

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

**9. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS (cont d.)**

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

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

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

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

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2009

**10. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE**

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>February 28 2009 \$</b>	<b>February 29 2008 \$</b>	<b>February 28 2009 \$</b>	<b>February 29 2008 \$</b>
<b>MPE®</b>				
North America	<b>341,446</b>	284,054	<b>778,851</b>	546,318
Europe	<b>24,358</b>	-	<b>55,830</b>	-
Australia	<b>27,628</b>	-	<b>30,250</b>	-
Total MPE®	<b>393,432</b>	284,054	<b>864,931</b>	546,318
<b>Clipstream ® &amp; Pirate Radio</b>				
North America	<b>72,645</b>	69,650	<b>153,478</b>	158,838
Outside of North America	<b>1,411</b>	6,105	<b>3,640</b>	11,301
Total Clipstream ® & Pirate Radio	<b>74,056</b>	75,755	<b>157,118</b>	170,139
<b>Total revenue</b>	<b>467,488</b>	359,809	<b>1,022,049</b>	716,457

During the six months ended February 28, 2009, two customers represented 48% of the total revenue balance [February 29, 2008 one customer represented 49% of the total revenue balance].

As at February 28, 2009, one customer represented \$90,000 (29%) of the trade receivables balance [February 29, 2008 one customer represented 51%].

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

Six months ended February 28, 2009

**11. FAIR VALUE MEASURES**

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

*Level 1*

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

*Level 2*

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

*Level 3*

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

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

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION FORWARD LOOKING STATEMENTS**

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

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

### **OVERVIEW AND CORPORATE BACKGROUND**

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

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

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

#### **A) MPE® Suite of Products**

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

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

MPE® products include:

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





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

<http://www.plaympe.com>

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

<http://www.myplaympe.com>

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

<http://www.podds.ca>

The Play MPE® system, which represented most of the Company's revenue in the six months ended February 28, 2009, enables a content owner to securely move electronic files (song, videos etc.) through the Internet to a trusted end user.

## **B) Clipstream® Suite of Products**

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

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

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

Clipstream® products and solutions include:

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

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

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

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

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

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

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

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

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

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

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

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

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

## **RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED FEBRUARY 28, 2009**

### **Revenue**

Total revenue for the six months ended February 28 2009 has grown by 43% over the same period in the prior year to \$1,022,049 (2008 - \$716,457). The growth in revenue is driven by the growth in our Play MPE® system, where access fees have grown by 72% over the same period last year.

Our revenues for the quarter increased to \$467,488 which represents an increase of 30% over the same period in the prior year. The increase is driven by a 39% increase to Play MPE system access fees. As a result of the seasonality of new track releases, we had anticipated a reduction in the use of the Play MPE system during the latter half of December and early part of January as our record label clients have relatively little activity due to seasonal holidays.

In fiscal 2008, we ceased pilot usage of the Play MPE® system which has been commercially accepted in United States. Over the course of fiscal 2008, we entered into and expanded our commercial agreements, adding EMI and Warner Music Group (our second and third US Major Record Labels respectively), several sub-labels of Sony BMG and hundreds of independent record labels in the US. Additionally we renewed and expanded our agreement with Universal Music Group and have several sub-labels of Sony BMG on a pay-as-you-go basis.

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

During the six months ended February 28, 2009 we have expanded into Australia commenced with the commercial use of Play MPE® by Warner Australia. Subsequently we have entered into agreements with Universal Music Group (Australia) and EMI (Australia) as well as additional independent clients in Australia which were added to our revenue base in the second quarter.

The increase in Play MPE® revenue during the second quarter of 2009 compared the same quarter of last year was the result of increases across the spectrum of our client base. The growth has been realized across

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formats, through existing clients, and through new clients in new geographic areas and includes; a 23% increase in North American Major Record Label revenue, a 72% increase in North American independent record label revenue, expansion into Northern European, Australia, and revenue from two Major Record Labels rolling out international pilots in new territories.

The music industry has begun to use Play MPE® in some markets as the primary distribution method and Play MPE® is the world leader in secure digital distribution. We have seen the transition from traditional distribution methods to Play MPE® begin gradually and the growth seen in 2008 has continued into 2009.

During the six months ended February 28, 2009 approximately 15% of our revenues are derived from sales of our Clipstream® software and decreased from the six months ended February 29, 2008 by 4%. We hope to increase sales of Clipstream® licenses through our hosted solution and other license opportunities.

### Operating Expenses

Operating expenditures for the six months ended February 28 2009 has decreased by 47% over the same period in the prior year to \$1,263,113 (2008 - \$2,360,163). The strengthening of the US dollar has some influence on our operating expenditures and has resulted in a decrease of approximately 8-10%. We anticipate the favorable exchange rates to result in further reductions to expenses into our third quarter.

The establishment of the Play MPE® product on a commercial basis and maturity of the product on a technical basis has also resulted in reduced staffing requirements. These reductions result in decreased operating expenses in our second quarter.

Included in our expenses are non-cash amortization and stock compensation expense of \$51,573 (2008 - \$183,749) leading to a net loss before non-cash items of \$129,852 for the six months ended February 28 2009. Expenses are anticipated to remain consistent with the prior quarter but are subject to fluctuations in exchange rates. Our current level of expenditures is sufficient to adequately service our North American revenue with the anticipated increases throughout the remainder of the year. We anticipate significant additions to revenue from sources outside of North America beginning in our third quarter and more significantly in our fourth quarter. These increases in revenue will come with added costs for support, marketing, servers and bandwidth. However we anticipate that these increases in costs will not be significant and will be substantially below our anticipated international revenue increases.

At the end of fiscal 2007 we moved offices due to a proposed rent increase and to accommodate anticipated growth in staff. We were able to secure approximately double the square footage for approximately the same cost as the proposed rent increase. The new space is sufficiently large and efficient to accommodate our growth while providing some space to sub-lease. The rent expense of \$136,741 is offset by our sub-lease rental income of \$56,459 which is included in Other income in the Statement of Operations.

General and administrative	February 28 2009 (6 months)	February 29 2008 (6 months)	\$ Change	% Change
Wages and benefits	190,289	215,877	(25,588)	(11.9%)
Rent	35,109	27,461	7,648	27.9%
Telecommunications	11,041	9,593	1,448	15.1%
Bad debt	19,104	7,782	11,322	145.5%
Office and miscellaneous	15,586	168,728	(153,142)	(90.8%)
Professional fees	87,776	202,298	(114,522)	(56.6%)
	358,905	631,739	(272,834)	(43.2%)

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

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The decrease in office and miscellaneous is due to the reduction in investor relations fees, and due to a one time application fee paid in the prior year. Additionally, foreign exchange gains were realized on various balances which are denominated in Canadian dollars.

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

<b>Sales and marketing</b>	<b>February 28 2009</b> (6 months)	<b>February 29 2008</b> (6 months)	<b>\$ Change</b>	<b>% Change</b>
Wages and benefits	212,913	351,873	(138,960)	(39.5%)
Rent	36,957	43,938	(6,981)	(15.9%)
Telecommunications	11,622	15,348	(3,726)	(24.3%)
Meals and entertainment	563	15,768	(15,205)	(96.4%)
Travel	16,028	38,195	(22,167)	(58.0%)
Advertising and marketing	163,129	456,468	(293,339)	(64.3%)
	441,212	921,590	(480,378)	(52.1%)

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

The majority of this decrease was due to the decrease in marketing expenditures. During the six months ended February 29, 2008, we significantly expanded our marketing and advertising efforts for Play MPE®. During the six months ended February 28, 2009, Play MPE® has received significant support from the world's largest record labels resulting in cost effective and organic marketing efforts and demand on higher costs marketing efforts has decreased.

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

<b>Research and development</b>	<b>February 28 2009</b> (6 months)	<b>February 29 2008</b> (6 months)	<b>\$ Change</b>	<b>% Change</b>
Wages and benefits	350,532	670,245	(319,713)	(47.7%)
Rent	64,675	85,261	(20,586)	(24.1%)
Telecommunications	20,338	29,783	(9,445)	(31.7%)
Miscellaneous	10,719	-	10,719	100%
	446,264	785,289	(339,744)	(43.26%)

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

### **Amortization**

Amortization expense arose from fixed assets and other assets. Amortization decreased to \$16,732 for the six months ended February 28, 2009 from \$21,545 for the six months ended February 29, 2008, a decrease of \$4,813 or 22%.

### **Other earnings and expenses**

Other income increased to \$60,122 for the six months ended February 28, 2009 and reflects rental increase from sub-leases of our office space.

Interest income decreased to \$1,106 for the six months ended February 28, 2009 from \$14,959 for the six months ended February 29, 2008, a decrease of \$13,853.

Interest expense decreased to \$1,589 for the six months ended February 28, 2009 from \$9,243 for the six months ended February 29, 2008, a decrease of \$7,654.

### **Net Losses**

Our net loss decreased by 89% from the same quarter in the previous year. With anticipated growth in revenue mentioned above it is anticipated that this trend will continue.

### **LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$9,572 as at February 28, 2009 compared to cash of \$91,369 as at August 31, 2008. We had a working capital deficiency of \$198,937 as at February 28, 2009 compared to a working capital deficiency of \$192,772 as at August 31, 2008. It is anticipated that both our cash position and our working capital deficiency will improved during the third quarter as a result of anticipated increases to revenue and anticipated consistent operating expenses.

### **CASHFLOWS**

#### **Operating**

Net cash used in operating activities decreased to \$131,207 for the six months ending February 28, 2009, compared to \$1,078,138 for the six months ended February 29, 2008 as a result of increasing revenues, and efficiencies pursued by management which has resulted in declining costs.

#### **Investing**

Net cash used in investing activities during the six months ended February 28, 2009 was \$0, as compared with \$35,993 used in investing activities for the six months ended February 29, 2008.

#### **Financing**

Net cash provided from financing activities increased to \$58,720 during the six months ended February 28, 2009, as compared to \$22,000 used in financing activities over the same period in the prior year.

### **Going Concern**

During the six months ended February 28, 2009, the Company has continued to implement its business plan of increasing revenue through the expansion of our products into new geographic areas and through increased usage by existing customers for its Play MPE® system. The Company is pursuing transaction fee based agreements with other large record labels, and has also developed an Indie Uploader system for smaller labels available on [www.myplaympe.com](http://www.myplaympe.com).

The Company is encouraged by its revenue growth through fiscal 2008 and into the first two quarters of fiscal 2009. Management expects revenues and cashflows to continue to improve throughout fiscal 2009 as customers incorporate



Play MPE® into their work flow and as Play MPE® expands globally. Management is expanding the use of Play MPE® globally and has established commercial agreements on a global basis with two of the four largest record labels in the world, and anticipates the trend of increased revenue to continue through increased revenue from new and existing customers in North America and in overseas markets.

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Management also anticipates further reductions in expenditures from favorable foreign exchange rates and previously reduced staffing levels which have not yet resulted in reduced expenses on the financial statements. The Company is also currently negotiating a partnering agreement which could result in a significant reduction in current marketing expenditures and act as a catalyst to worldwide expansion.

The Company will need to raise additional funds to complete its business plan due to its significant working capital deficiency. The Company's goal is to obtain these funds through internal and external financing sources including cash flows from operations, strategic partnerships, equity financings and shareholder loans. There are no assurances that the Company will be successful in achieving these goals.

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

### **CRITICAL ACCOUNTING POLICIES**

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

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

- The consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. If we were not to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. There can be no assurances that we will be successful in generating additional cash from equity or other sources to be used for operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.
  - We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, collection is reasonably assured, and there are no substantive performance obligations remaining. Our revenue recognition policies are in conformity with AICPA's Statement of Position No. 97-2, Software Revenue Recognition, as amended (SOP 97-2). We generate revenue from software arrangements involving multiple element sales arrangements. Revenue is allocated to each element of the arrangement based on the relative fair value of the elements and is recognized as each element is delivered and we have no significant remaining performance obligations. If evidence of fair value for each element does not exist, all revenue from the arrangement is recognized over the term of the arrangement. Changes in our business priorities or model in the future could materially impact our reported revenue and cash flow. Although such changes are not currently contemplated, they could be required in response to industry or customer developments.
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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 February 28, 2009. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer, Mr. Steven Vestergaard and Chief Financial Officer, Mr. Fred Vandenberg. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no material changes in our internal controls or in other factors that could materially affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

On February 19, 2009 the Company received a Statement of Claim in the Court of Queen s Bench of Alberta on behalf of a former employee living in Mexico. The claim is for approximately \$133,000 plus unspecified damages and 385,833 stock options. The Company believes the former employee s claims are without merit and will defend its position. The Company has accrued an amount which management believes is sufficient and that it is unlikely that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

**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 six months ended February 28, 2009.

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

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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.

Dated: April 14, 2009

**DESTINY MEDIA TECHNOLOGIES INC.**

*/s/ Steve Vestergaard*

Steven Vestergaard, Chief Executive Officer

and

*/s/ Fred Vandenberg*

Frederick Vandenberg, Chief Financial Officer

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