

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-Q  
April 14, 2011

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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, 2011

**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.)

**Suite 750, PO Box 11527, 650 West Georgia Street, Vancouver,  
British Columbia Canada V6B 4N7**

(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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Yes [ ] No [ ]

(Does not currently apply to the Registrant)

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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 | <input type="checkbox"/> |   | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input type="checkbox"/> | (Do not check if a smaller reporting company) | Smaller reporting company | <input checked="" type="checkbox"/> |

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:

**50,434,097 Shares of \$0.001 par value common stock outstanding as of April 14, 2011.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS.**

Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Six months ended February 28, 2011

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## Destiny Media Technologies Inc.

## CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

Unaudited

As at

|   | February 28,<br>2011<br>\$ | August 31,<br>2010<br>\$ |
|---|----------------------------|--------------------------|
| <b>ASSETS</b>   |                            |                          |
| <b>Current</b>  |                            |                          |
| Cash  | 422,575                    | 491,012                  |
| Accounts and other receivables, net of allowance for doubtful accounts of \$32,771<br>[August 31, 2010 \$17,093] [note 9] | 430,725                    | 542,932                  |
| Other receivables   | 105,322                    | 45,616                   |
| Prepaid expenses  | 7,681                      | 32,282                   |
| Deferred tax assets   | 380,000                    | 380,000                  |
| <b>Total current assets</b>   | <b>1,346,303</b>           | <b>1,491,842</b>         |
| Deposits  | 48,658                     | 9,496                    |
| Property and equipment, net   | 156,814                    | 129,479                  |
| Deferred tax assets - long term portion   | 936,000                    | 948,000                  |
| <b>Total assets</b>   | <b>2,487,775</b>           | <b>2,578,817</b>         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                            |                          |
| <b>Current</b>  |                            |                          |
| Accounts payable  | 294,823                    | 220,538                  |
| Accrued liabilities   | 280,554                    | 259,388                  |
| Deferred leasehold inducement   | 1,977                      |                          |
| Deferred revenue  | 55,485                     | 25,018                   |
| Obligation under capital lease - current portion [note 4]   | 9,991                      | 10,759                   |
| <b>Total current liabilities</b>  | <b>642,830</b>             | <b>515,703</b>           |
| Obligation under capital lease - long term portion [note 4]   |                            | 3,745                    |
| <b>Total liabilities</b>  | <b>642,830</b>             | <b>519,448</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: 50,434,097 shares   |                            |                          |
| [August 31, 2010 51,143,847 shares]   | 50,434                     | 51,145                   |
| Additional paid-in capital  | 8,752,310                  | 9,049,308                |
| Accumulated deficit   | (7,184,705)                | (7,214,541)              |
| Accumulated other comprehensive income  | 226,906                    | 173,457                  |
| <b>Total stockholders equity</b>  | <b>1,844,945</b>           | <b>2,059,369</b>         |
| <b>Total liabilities and stockholders equity</b>  | <b>2,487,775</b>           | <b>2,578,817</b>         |
| <i>See accompanying notes</i>   |                            |                          |

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Expressed in United States dollars)

Unaudited

|  | <b>Three Months<br/>Ended<br/>February 28,<br/>2011</b> | Three Months<br>Ended<br>February 28,<br>2010 | <b>Six Months<br/>Ended<br/>February 28,<br/>2011</b> | Six Months<br>Ended<br>February 28,<br>2010 |
|--|---|---|---|---|
|  | \$  | \$  | \$  | \$  |
| <b>Revenue</b> <i>[note 9]</i>                                   | <b>841,072</b>  | 869,864                                       | <b>1,897,710</b>                                      | 1,917,392                                   |
| <b>Operating expenses</b>  |   |   |   |   |
| General and administrative                                       | <b>295,376</b>  | 266,795                                       | <b>659,545</b>  | 512,526                                     |
| Sales and marketing  | <b>199,032</b>  | 188,942                                       | <b>414,531</b>  | 393,488                                     |
| Research and development   | <b>394,742</b>  | 304,255                                       | <b>758,645</b>  | 595,911                                     |
| Amortization   | <b>14,087</b>   | 12,630  | <b>30,780</b>   | 24,120                                      |
|  | <b>903,237</b>  | 772,622                                       | <b>1,863,501</b>                                      | 1,526,045                                   |
| Income (loss) from operations                                    | <b>(62,165)</b>   | 97,242  | <b>34,209</b>   | 391,347                                     |
| <b>Other income (expenses)</b>                                   |   |   |   |   |
| Other income   | <b>38</b>   | 29,350  | <b>3,030</b>  | 58,310                                      |
| Interest income  | <b>2,308</b>  | 1,117   | <b>5,082</b>  | 2,065                                       |
| Interest and other expense                                       | <b>(208)</b>  | (540)   | <b>(485)</b>  | (1,873)                                     |
| <b>Income (loss) before income taxes</b>                         | <b>(60,027)</b>   | 127,169                                       | <b>41,836</b>   | 449,849                                     |
| Income tax recovery (expense) - deferred                         | <b>17,000</b>   |   | <b>(12,000)</b>                                       |   |
| Net Income (loss)  | <b>(43,027)</b>   | 127,169                                       | <b>29,836</b>   | 449,849                                     |
| <b>Net income (loss) per common share, basic<br/>and diluted</b> | <b>0.00</b>   | 0.00  | <b>0.00</b>   | 0.01  |
| <b>Weighted average common shares outstanding:</b>               |   |   |   |   |
| <b>Basic</b>   | <b>50,492,625</b>                                       | 51,912,465                                    | <b>50,684,212</b>                                     | 51,876,938                                  |
| <b>Diluted</b>   | <b>50,492,625</b>                                       | 52,675,248                                    | <b>51,116,020</b>                                     | 52,256,222                                  |

*See accompanying notes*

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS CHANGES IN STOCKHOLDERS EQUITY**

(Expressed in United States dollars)

Unaudited

|   | Common stock      |               | Additional       | Accumulated        | Accumulated    | Total           |
|---|-------------------|---------------|------------------|--------------------|----------------|-----------------|
|   | Shares            | Amount        | paid-in          | deficit            | other          | stockholders    |
|   | #                 | \$            | capital          | \$                 | comprehensive  | Equity          |
|   |                   |               | \$               |                    | income         | \$              |
| <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>790,93</b>   |
| Net income for the year                   |                   |               |                  | 1,686,073          |                | 1,686,07        |
| Foreign currency translation gain         |                   |               |                  |                    | 25,802         | 25,80           |
| Comprehensive income                      |                   |               |                  |                    |                | 1,711,87        |
| Common stock issued on options exercised  | 133,200           | 133           | 6,117            |                    |                | 6,25            |
| Common stock issued on warrants exercised | 336,000           | 336           | (336)            |                    |                |                 |
| Common stock repurchased and cancelled    | (1,049,000)       | (1,049)       | (466,611)        |                    |                | (467,66         |
| Stock options repurchased and cancelled   |                   |               | (30,000)         |                    |                | (30,00          |
| Stock based compensation                  |                   |               | 47,970           |                    |                | 47,97           |
| <b>Balance, August 31, 2010</b>           | <b>51,143,847</b> | <b>51,145</b> | <b>9,049,308</b> | <b>(7,214,541)</b> | <b>173,457</b> | <b>2,059,36</b> |
| Net income                                |                   |               |                  | 29,836             |                | 29,83           |
| Foreign currency translation gain         |                   |               |                  |                    | 53,449         | 53,44           |
| Comprehensive income                      |                   |               |                  |                    |                | 83,28           |
| Common stock repurchased and cancelled    | (709,750)         | (711)         | (299,972)        |                    |                | (300,68         |
| Stock based compensation                  |                   |               | 2,974            |                    |                | 2,97            |
| <b>Balance, February 28, 2011</b>         | <b>50,434,097</b> | <b>50,434</b> | <b>8,752,310</b> | <b>(7,184,705)</b> | <b>226,906</b> | <b>1,844,94</b> |

*See accompanying notes*

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

|  | <b>Six Months<br/>Ended<br/>February 28,<br/>2011</b> | <b>Six Months<br/>Ended<br/>February 28,<br/>2010</b> |
|--|---|---|
|  | \$  | \$  |
| <b>OPERATING ACTIVITIES</b>                      |   |   |
| Net income for the period                        | <b>29,836</b>   | 449,849   |
| Items not involving cash:                        |   |   |
| Amortization                                     | <b>30,780</b>   | 24,120  |
| Deferred commission costs                        |   | 6,864   |
| Deferred leasehold inducement                    | <b>1,914</b>  |   |
| Stock-based compensation                         | <b>2,974</b>  | 54,332  |
| Income taxes deferred                            | <b>12,000</b>   |   |
| Changes in non-cash working capital:             |   |   |
| Accounts receivable                              | <b>149,796</b>  | (26,570)  |
| Other receivables                                | <b>(54,306)</b>                                       | (41,900)  |
| Prepaid expenses                                 | <b>(10,917)</b>                                       | 4,845   |
| Accounts payable                                 | <b>55,406</b>   | (228,066)   |
| Accrued liabilities                              | <b>1,041</b>  | 76,944  |
| Deferred revenue                                 | <b>27,579</b>   | (11,412)  |
| <b>Net cash provided by operating activities</b> | <b>246,103</b>  | 309,006   |
| <b>INVESTING ACTIVITIES</b>                      |   |   |
| Purchase of property and equipment               | <b>(47,397)</b>                                       | (14,651)  |
| <b>Net cash used in investing activities</b>     | <b>(47,397)</b>                                       | (14,651)  |
| <b>FINANCING ACTIVITIES</b>                      |   |   |
| Repayments on capital lease obligations          | <b>(5,468)</b>  | (4,697)   |
| Repurchase of shares and options                 | <b>(300,683)</b>                                      | (172,664)   |
| Repayments of shareholder loans                  |   | (70,787)  |
| <b>Net cash used in financing activities</b>     | <b>(306,151)</b>                                      | (248,148)   |
| Effect of foreign exchange rate changes on cash  | <b>39,008</b>   | 5,504   |
| <b>Net increase (decrease) in cash</b>           | <b>(68,437)</b>                                       | 51,711  |
| Cash, beginning of period                        | <b>491,012</b>  | 253,100   |
| <b>Cash, end of period</b>                       | <b>422,575</b>  | 304,811   |
| <b>Supplementary disclosure</b>                  |   |   |
| Cash paid for interest                           | <b>485</b>  | 1,873   |
| <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, 2011

**1. ORGANIZATION**

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

The Company's stock is listed for trading under the symbol DSNY on the OTC Bulletin Board in the United States, under the symbol DSY on the TSX Venture Exchange and under the symbol DME on the Berlin, Frankfurt, Xetra and Stuttgart exchanges in Germany.

**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 six months ended February 28, 2011 are not necessarily indicative of the results that may be expected for the year ended August 31, 2011.

The balance sheet at August 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States generally accepted accounting principles for annual financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended August 31, 2010.

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2011

**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 six months ended February 28, 2011, no shares were issued.

**[b] Cancelled**

During the six months ended February 28, 2011, the Company repurchased and cancelled 709,750 shares for a total cost of \$300,683.

**[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 1,116,334 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.

*Stock-based Payment Award Activity*

A summary of option activity under the Plans as of August 31, 2010, and changes during the six-month period ended February 28, 2011 is presented below:

| <b>Options</b>                                     | <b>Shares</b>    | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>\$</b> |
|--|------------------|--|--|---|
| <b>Outstanding at August 31, 2010</b>              | <b>3,225,000</b> | <b>0.47</b>  | <b>1.68</b>  | <b>117,600</b>                                  |
| Granted  |                  |  |  |   |
| Exercised  |                  |  |  |   |
| Expired  | (50,000)         | 1.80   |  |   |
| <b>Outstanding at February 28, 2011</b>            | <b>3,175,000</b> | <b>0.45</b>  | <b>1.20</b>  | <b>58,800</b>                                   |
| <b>Vested and exercisable at February 28, 2011</b> | <b>3,147,917</b> | <b>0.45</b>  | <b>1.18</b>  | <b>58,800</b>                                   |

## Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2011

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

The following table summarizes information regarding the non-vested stock purchase options outstanding as of February 28, 2011:

|  | <b>Number of Options</b> |
|--|--------------------------|
| <b>Non-vested options at August 31, 2010</b>   | <b>42,708</b>            |
| Vested   | (15,625)                 |
| <b>Non-vested options at February 28, 2011</b> | <b>27,083</b>            |

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, 2011.

During the three and six months ended February 28, 2011, total stock-based compensation expense related to employees of \$2,974 is reported in the statement of operations as follows:

|                                       | <b>Three Months Ended</b>   |                             | <b>Six Months Ended</b>     |                             |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                       | <b>February 28<br/>2011</b> | <b>February 28<br/>2010</b> | <b>February 28<br/>2011</b> | <b>February 28<br/>2010</b> |
|                                       | \$                          | \$                          | \$                          | \$                          |
| <b>Stock-based compensation:</b>      |                             |                             |                             |                             |
| General and administrative            | <b>466</b>                  | 18,505                      | <b>1,070</b>                | 18,541                      |
| Sales and marketing                   | <b>316</b>                  | 14,200                      | <b>673</b>                  | 14,234                      |
| Research and development              | <b>628</b>                  | 21,471                      | <b>1,231</b>                | 21,557                      |
| <b>Total stock-based compensation</b> | <b>1,410</b>                | 54,176                      | <b>2,974</b>                | 54,332                      |

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2011

**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>Six Months Ended</b>     |                     |
|--|-----------------------------|---------------------|-----------------------------|---------------------|
|  | <b>February 28<br/>2011</b> | February 28<br>2010 | <b>February 28<br/>2011</b> | February 28<br>2010 |
| Expected term of stock options (years) |                             | 0.55-2.5            |                             | 0.55-2.5            |
| Expected volatility                    |                             | 76%-86%             |                             | 76%-86%             |
| Risk-free interest rate                |                             | 0.2%-1%             |                             | 0.2%-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 six months ended February 28, 2011, there were no options granted. During the six months ended February 28, 2010, 50,000 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 six month period ended February 28, 2010 was \$0.11.

As of February 28, 2011 there was \$5,906 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 13 months.

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2011

**3. SHARE CAPITAL (cont d.)****[d] Employee Stock Purchase Plan**

The Company's 2011 Employee Stock Purchase Plan (the Plan) became effective on February 22, 2011. Under the Plan, employees of Destiny are able to contribute up to 5% of their annual salary into a pool which is matched equally by Destiny. Independent directors are able to contribute a maximum of \$12,500 each for a combined maximum annual purchase of \$25,000. The maximum annual combined contributions will be \$400,000. All purchases are made through the Toronto Stock Exchange by a third party plan agent. The third party plan agent will also be responsible for the administration of the Plan on behalf of Destiny and the participants. During the six months ended February 28, 2011, the Company recognized compensation expense of \$9,310 in the statement of operations in respect of the Plan and 34,500 shares were purchased at an average price of \$0.35. The shares are held in trust by the Company for a period of one year.

**[e] Warrants**

As at February 28, 2011, the Company has the following common stock warrants outstanding:

|                 | <b>Number of Common<br/>Shares Issuable</b> | <b>Exercise Price<br/>\$</b> | <b>Date of Expiry</b> |
|-----------------|---|------------------------------|-----------------------|
| \$0.22 Warrants | 350,000                                     | 0.22                         | August 25, 2012       |
| \$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 \$38,500 as at February 28, 2011.

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2011

**4. COMMITMENTS**

The Company entered into a sub-lease agreement for its premises on September 15, 2010. It commenced on October 22, 2010 and will expire on October 31, 2013. The Company is committed to payments as followed:

|      | \$      |
|------|---------|
| 2011 | 115,251 |
| 2012 | 235,444 |
| 2013 | 241,376 |
| 2014 | 40,394  |

The Company is committed to make payments under its capital leases for the remaining terms of the leases as follows:

|                                     | \$     |
|-------------------------------------|--------|
| 2011                                | 6,380  |
| 2012                                | 4,151  |
| Total lease payments                | 10,531 |
| Less: Amounts representing interest | (540)  |
| Balance of obligation               | 9,991  |
| Less: Current portion               | 9,991  |
| Long term portion                   |        |

The Company arranged for credit facilities with the Royal Bank of Canada which allows the Company to draw up to \$450,000. These credit facilities consist of a revolving demand facility of \$400,000 bearing interest at prime plus 3.5% and a commercial credit card facility to \$50,000. As of February 28, 2011, the Company has not drawn on either of these credit lines.

**5. RELATED PARTY TRANSACTIONS**

The Company entered into a consulting agreement with a Director effective October 1, 2010 for six months. The Company will pay \$2,000 per month, plus authorized expenses. The Director will receive a 10% commission if related new businesses are successfully closed. During the six months ended February 28, 2011, the Company paid \$10,000 consulting fees.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2011

**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, 2010, the tax years which remain subject to examination by major tax jurisdictions as of February 28, 2011. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2011

**7. CONTINGENCIES**

The Company is involved in three actions with Yangaroo Inc. Yangaroo, a competitor in Canada, as described below:

- a) On March 7, 2006, the Company filed a statement of claim in the Federal Court of Canada against Yangaroo to affirm the Company's belief that the Play MPE® service does not infringe on Yangaroo's Canadian patent and to have this patent declared invalid. On June 7, 2006, the Company's counsel received a statement of defense and counterclaim from Yangaroo. Yangaroo's Chairman has since admitted under oath that he had no knowledge of Yangaroo ever having received either a legal or third party expert opinion that the Play MPE® system infringes the Yangaroo patent.
- b) On May 3, 2007, the Company filed a claim against Yangaroo and its executives for \$25,000,000 in Ontario Superior Court for defamation injurious falsehood, interference with economic relations, breaches of the Trade-marks Act and breaches of the Competition Act. On June 7, 2007, a statement of defense and counterclaim for the same complaints was filed. The Company believes the counterclaim has no merit. On January 20, 2011, the Superior Court of Justice ruled to dismiss Yangaroo's counterclaims for injurious falsehood and for interference with economic relations.
- c) On May 12, 2009, the Company was served with a complaint in United States District Court (Eastern District of Wisconsin) by Yangaroo alleging that the Company infringes on its United States patent. On June 7, 2010, the District Court dismissed Yangaroo's claim in its entirety. On March 14, 2011, The United States Court of Appeals for the Federal Circuit affirmed the earlier District Court's ruling against Yangaroo and dismissed Yangaroo's claim.

The amount of damages to the Company, 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 former employee relocated to Mexico and maintained he should keep his position. The claim is for approximately \$170,000 (\$180,000 CDN) plus an award of stock options and unspecified damages. The Company believes the claim is without merit. 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

Six months ended February 28, 2011

**8. NEW ACCOUNTING PRONOUNCEMENTS**

*Recently adopted accounting pronouncements*

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* ( ASU 2009-13 ). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence ( VSOE ) if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE or third-party evidence is available. ASU 2009-13 is effective for revenue arrangements entered into in fiscal years beginning on or after June 15, 2010. The Company s adoption of this guidance did not have a material effect 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 s adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

*Accounting Standards Not Yet Effective*

In April 2010, the FASB issued Accounting Standards Update 2010-13, *Compensation - Stock Compensation* (Topic 718) . The objective of this Update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. The Update provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this Update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. 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

Six months ended February 28, 2011

## 9. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE

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

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

|  | Three Months Ended        |                           | Six Months Ended          |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | February 28<br>2011<br>\$ | February 28<br>2010<br>\$ | February 28<br>2011<br>\$ | February 28<br>2010<br>\$ |
| <b>MPE®</b>                            |                           |                           |                           |                           |
| North America                          | <b>447,814</b>            | 478,000                   | <b>1,003,993</b>          | 1,076,661                 |
| Europe                                 | <b>293,671</b>            | 293,708                   | <b>683,844</b>            | 610,723                   |
| Australasia                            | <b>46,414</b>             | 36,521                    | <b>101,741</b>            | 92,054                    |
| Total MPE®                             | <b>787,899</b>            | 808,229                   | <b>1,789,578</b>          | 1,779,438                 |
| <b>Clipstream ® &amp; Pirate Radio</b> |                           |                           |                           |                           |
| North America                          | <b>53,173</b>             | 61,635                    | <b>108,132</b>            | 137,954                   |
| Outside of North America               | -                         |                           |                           |                           |
| Total Clipstream ® & Pirate Radio      | <b>53,173</b>             | 61,635                    | <b>108,132</b>            | 137,954                   |
| <b>Total revenue</b>                   | <b>841,072</b>            | 869,864                   | <b>1,897,710</b>          | 1,917,392                 |

During the six months ended February 28, 2011, three customers represented 63% of the total revenue balance (February 28, 2010 three customers represented 63% of the total revenue balance). During the three months ended February 28, 2011, three customers represented 63% of the total revenue balance (February 28, 2010 three customers represented 65% of the total revenue balance).

As at February 28, 2011, two customers represented 57% of the trade receivables balance (August 31, 2010 three customers represented 61%).

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, 2011

**10. SUBSEQUENT EVENTS**

On March 14, 2011, The United States Court of Appeals for the Federal Circuit affirmed the earlier District Court's ruling against Yangaroo discussed on notes 7(c) and entirely dismissed Yangaroo's claim against the Company.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **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 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 Suite 750, PO Box 11527, 650 West Georgia Street, Vancouver, British Columbia V6B 4N7. Our telephone number is (604) 609-7736 and our facsimile number is (604) 609-0611.

Our common stock trades on TSX Venture Exchange in Canada under the symbol DSY, on the OTC Bulletin board under the symbol DSNY, and on various German exchanges (Frankfurt, Berlin, Stuttgart and Xetra) under the symbol WKN 935410.

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

### **OUR PRODUCTS AND SERVICES**

Destiny develops and markets services that enable the secure distribution of digital media content over the internet. Destiny services are based around proprietary security, watermarking and playerless streaming media technologies.

The current offerings include the Play MPE® secure distribution network, which the recording industry uses to distribute new pre-release music, and the Clipstream® instant play streaming media solutions.

Currently, more than 90% of the Company's revenues come from the Play MPE® digital distribution service. The remaining revenue is derived from recurring revenues for secure Clipstream® powered market research video questionnaires and legacy Clipstream® licenses.



## **Play MPE®**

Play MPE® is a digital delivery service for securely moving broadcast quality audio, video, images, promotional information and other digital content securely through the internet. The system is currently used by the recording industry for transferring pre-release broadcast quality music, radio shows, and music videos to trusted recipients such as radio stations, media reviewers, VIP s, DJ s, film and TV personnel, sports stadiums and retailers. The system replaces the physical distribution (mail, courier or hand delivery) of CD s. As with traditional physical delivery, our fees are based on the size of the content and number of recipients.

More than 1,000 record labels, including all four major labels (Universal Music Group, Warner Music Group, EMI and Sony), are regularly using Play MPE® to deliver their content to radio.

## **Clipstream®**

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. 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® 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.

## **RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED FEBRUARY 28, 2011**

### **Revenue**

The majority of our revenue is derived from the Play MPE® secure pre-release delivery service representing 94% of our total revenues. Play MPE® system access fees grew to \$1,789,578 (February 28, 2010 - \$1,779,438) representing an increase of 1% over the same period of the previous year. However, total revenue for the six months ended February 28, 2011 was down 1% over the same period in the prior year to \$1,897,710 (February 28, 2010 - \$1,917,392) due to a decline in Clipstream® revenue.

Approximately 38% of our Play MPE® revenue is denominated in Euros. Play MPE® revenue from Europe for the six months ended February 28, 2011 reached \$683,844 (February 28, 2010 - \$610,723) representing an increase of 12% in spite of an 7% decline in the value of the Euro relative to the US dollar. Approximately 56% of Play MPE® revenue is denominated in US Dollars and 6% of Play MPE® revenue is denominated in Australia Dollars.

The majority of our revenue is generated from digital media distribution service. The service is billed on usage which is based on the volume and size of distributions provided on a monthly basis ( sends ). A send is a song, bundle of songs, album, box set, or video, authorized to be sent to a particular recipient. The revenue associated with each send will be on a sliding scale depending on the size of the particular send (song length for example). The system provides each label under contract to manage their own lists of recipients and directly encode and distribute their songs. This added ability provided to our clients substantially eliminates the strain on our own internal resources that can be seen in competing solutions and allows for high growth potential. All such revenues are recognized on a monthly basis as the services are delivered to customers, except where extended payment terms exist. Such revenues are only recognized when the extended payment term expires.

During the six months ended February 28, 2011 approximately 6% of our total revenues are derived from sales of our Clipstream® software.

## Operating Expenses

### Overview

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

Total operating expenditures for the six months ended February 28, 2011 has increased by 22% over the same period in the prior year to \$1,863,501 (2010 - \$1,526,045). This increase is due to an increase in the volume of legal work associated with litigation with a Canadian competitor, one-time costs associated with our listing on the TSX Venture Exchange (representing approximately 6% of the total operating costs) and increased salaries and wages costs which are due in part to unfavorable exchange fluctuations, additional staff and salary adjustments.

Operating expenditures for the three months ended February 28, 2011 have increased by approximately \$130,000 over the same quarter of the previous year to \$903,237 (2010 - \$772,622). The increase is due in part to increased professional fees and increased salaries and wages costs as a result of unfavorable exchange fluctuations, additional staff and salary adjustments. However operating expenditures decreased by 6% when compared to our first quarter of the year in spite of unfavorable exchange fluctuations.

Rent expense of \$113,468 is offset by our sub-lease rental income of \$3,030 which is included in Other income in the Statement of Operations.

| <b>General and administrative</b> | <b>28-Feb<br/>2011</b> | <b>28-Feb<br/>2010</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|-----------------------------------|------------------------|------------------------|----------------------|---------------------|
|                                   | (6 months)             | (6 months)             |                      |                     |
| Wages and benefits                | 179,488                | 186,199                | (6,711)              | -3.6%               |
| Rent                              | 19,922                 | 34,354                 | (14,432)             | -42.0%              |
| Telecommunications                | 9,239                  | 11,329                 | (2,090)              | -18.4%              |
| Bad debt                          | 11,615                 | (23,397)               | 35,012               | -149.6%             |
| Office and miscellaneous          | 153,499                | 73,455                 | 80,044               | 109.0%              |
| Professional fees                 | 285,782                | 230,586                | 55,196               | 23.9%               |
|                                   | 659,545                | 512,526                | 147,019              | 28.7%               |

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

The increase in professional fees is due to an increase of volume of legal work associated with litigation. Office and miscellaneous costs have increased primarily due to one time fees associated with TSX Venture listing application. Bad debt recoveries declined as a large recovery for unpaid fees was realized during fiscal 2010.

| <b>Sales and marketing</b> | <b>28-Feb<br/>2011</b> | <b>28-Feb<br/>2010</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|----------------------------|------------------------|------------------------|----------------------|---------------------|
|                            | (6 months)             | (6 months)             |                      |                     |
| Wages and benefits         | 202,430                | 204,259                | (1,829)              | -0.9%               |
| Rent                       | 21,167                 | 35,028                 | (13,861)             | -39.6%              |
| Telecommunications         | 9,817                  | 11,551                 | (1,734)              | -15.0%              |
| Meals and entertainment    | 4,956                  | 3,081                  | 1,875                | 60.9%               |
| Travel                     | 21,466                 | 12,392                 | 9,074                | 73.2%               |
| Advertising and marketing  | 154,695                | 127,177                | 27,518               | 21.6%               |



414,531

393,488

21,043

5.3%

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. During the year ended August 31, 2010 and continued to the six months ended February 28, 2011, Play MPE® has received significant support from the world's largest record labels and achieved symbiotic relationships with partners within the music industry resulting in cost effective and organic marketing efforts and the marketing cost has been effectively under control. We expect that the business relationships we have developed will provide catalysts to global expansion and barriers to entry with potential competitors should they arise.

| <b>Research and development</b> | <b>28-Feb<br/>2011<br/>(6 months)</b> | <b>28-Feb<br/>2010<br/>(6 months)</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|---------------------------------|---------------------------------------|---------------------------------------|----------------------|---------------------|
| Wages and benefits              | 652,092                               | 478,275                               | 173,817              | 36.3%               |
| Rent                            | 72,378                                | 88,243                                | (15,865)             | -18.0%              |
| Telecommunications              | 33,567                                | 29,393                                | 4,174                | 14.2%               |
| Research and development        | 608                                   | -                                     | 608                  | 0.0%                |
|                                 | 758,645                               | 595,911                               | 162,734              | 27.3%               |

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 mainly due to increased staffing, increased salaries and wages costs, consulting requirements due to an increased ongoing investment in building out the functionality of our Play MPE® and the development of two new Clipstream® service offerings, which have yet to launch.

#### **Amortization**

Amortization expense arose from property and equipment. Amortization increased to \$30,780 for the six months ended February 28, 2011 from \$24,120 for the six months ended February 28, 2010, an increase of \$6,660 or 28%.

#### **Other earnings and expenses**

Other income decreased to \$3,030 for the six months ended February 28, 2011 from \$58,310 for the six months ended February 28, 2010, a decrease of \$55,280. The decrease was due to our move into a new office space and the termination of sub-lease agreements.

Interest income increased to \$5,082 for the six months ended February 28, 2011 from \$2,065 for the six months ended February 28, 2010, an increase of \$3,017.

Interest expense decreased to \$485 for the six months ended February 28, 2011 from \$1,873 for the six months ended February 28, 2010, a decrease of \$1,388.

#### **Net income**

During the six months ended February 28, 2011, we have net income of \$29,836 (February 28, 2010 income of \$449,849). The decrease in net income during the period is the result of increased expenses of professional fees, a one-time cost related to TSX-V listing application, increased salaries and wages costs which are due in part to unfavorable exchange fluctuations, additional staff and salary adjustments.

## LIQUIDITY AND FINANCIAL CONDITION

We had cash of \$422,575 as at February 28, 2011 (August 31, 2010 - \$491,012). We had working capital of \$703,473 as at February 28, 2011 compared to working capital of \$976,139 as at August 31, 2010. The decrease in our working capital was mainly due to the repurchase of shares and options of approximately \$300,000.

## CASHFLOWS

Net cash generated in operating activities was \$246,103 for the six months ended February 28, 2011, compared to \$309,006 for the six months ended February 28, 2010. Although our revenue remained somewhat at the same level compared to the comparable period in 2010, the main decrease in net cash flows in the operating activities was primarily due to an increase in operating costs, which is partially offset by an improvement on our receivable collections.

The cash used in investing activities was \$47,397 for the six months ended February 28, 2011. The net cash used in investing activities was \$14,651 for the six months ended February 28, 2010. The increase is primarily due to the purchase of computer and office equipment.

Net cash used in financing activities was \$306,151 for the six months ended February 28, 2011 compared to \$248,148 for the six months ended February 28, 2010. The increase is mainly the result of repurchasing common shares outstanding.

## RECENT ACCOUNTING PRONOUNCEMENTS

### *Recently adopted accounting pronouncements*

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* ( ASU 2009-13 ). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence ( VSOE ) if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE or third-party evidence is available. ASU 2009-13 is effective for revenue arrangements entered into in fiscal years beginning on or after June 15, 2010. The Company's adoption of this guidance did not have a material effect 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's adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

### *Accounting Standards Not Yet Effective*

In April 2010, the FASB issued Accounting Standards Update 2010-13, *Compensation - Stock Compensation* (Topic 718) . The objective of this Update is to address the classification of an employee share-based payment award with an

exercise price denominated in the currency of a market in which the underlying equity security trades. The Update provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. 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.

### ***Revenue Recognition***

We recognize revenue in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 985-605, Revenue Recognition. Accordingly, revenue is recognized when there is persuasive evidence of an arrangement, delivery to the customer has occurred, the fee is fixed and determinable, and collectability is considered probable.

The majority of our revenue is generated from digital media distribution service. The service is billed on usage which is based on the volume and size of distributions provided on a monthly basis. All revenues are recognized on a monthly basis as the services are delivered to customers, except where extended payment terms exist. Such revenues are only recognized when the extended payment term expires.

At present, the Company does not have yet have a standard business practice for contracts that contain extended payment terms, and therefore recognizes revenue from such contracts when the payment terms lapse and all other revenue criteria have been met.

Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If we made different judgments or utilized different estimates for any period material differences in the amount and timing of revenue recognized could result.

### ***Stock-Based Compensation***

We recognize the costs of employee services received in share-based payment transactions according to the fair value provisions of the current share-based payment guidance. The fair value of employee services received in stock-based payment transactions is estimated at the grant date and recognized over the requisite service period. Determining the appropriate fair value model and calculating the fair value of stock-based awards requires judgment, including estimating stock price volatility, forfeiture rates and expected life.

We selected the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value of our share-based awards. The Black-Scholes model requires the use of highly subjective and complex assumptions which determine the fair value of share-based awards, including the option's expected term and the price volatility of the underlying stock. Our current estimate of volatility is based on historical and market-based implied volatilities of our stock price. To the extent volatility of our stock price increases in the future, our estimates of the fair value of options granted in the future could increase, thereby increasing stock-based compensation cost recognized in future periods. We derive the expected term assumption primarily based on our historical settlement experience, while giving consideration to options that have not yet completed a full life cycle. Stock-based compensation cost is recognized only for awards ultimately expected to vest. Our estimate of the forfeiture rate is based primarily on our historical experience. To the extent we revise this estimate in the future, our share-based compensation cost could be materially impacted in the quarter of revision, as well as in the following quarters. In the future, as empirical evidence regarding these input estimates is available to provide more directionally predictive results, we may change or refine our approach of deriving these input estimates.



### ***Research and Development Expense for Software Products***

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

Significant management judgments and estimates must be made in connection with determination of any amounts identified for capitalization as software development costs in any accounting period. If we made different judgments or utilized different estimates for any period material differences in the amount and timing of capitalized development costs could occur.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

We extend credit to our customers based on evaluation of an individual customer's financial condition and collateral is generally not required. Accounts outstanding beyond the contractual payment terms are considered past due. We determine our allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are beyond the contractual payment terms, our previous loss history, and a customer's current ability to pay its obligation to us. We write off accounts receivable when they are identified as uncollectible. All outstanding accounts receivable accounts are periodically reviewed for collectability on an individual basis.

### ***Income Taxes***

Deferred income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates by tax jurisdiction at each balance sheet date. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We evaluate all available evidence, such as recent and expected future operating results by tax jurisdiction, and current and enacted tax legislation and other temporary differences between book and tax accounting to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. There is a risk that management estimates for operating results could vary significantly from actual results, which could materially affect the valuation of the future income tax asset. Although the Company has tax loss carry-forwards and other deferred income tax assets, management has determined certain of these deferred tax assets do not meet the more likely than not criteria, and accordingly, these deferred income tax asset amounts have been partially offset by a valuation allowance.

If management's estimates of the cash flows or operating results do not materialize due to errors in estimates or unforeseen changes to the economic conditions affecting the Company, it could result in an impairment adjustment in future periods up to the carrying value of the deferred income tax balance of \$1,316,000.

### ***Contingencies***

As discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Note 7 "Contingencies" in notes to unaudited interim consolidated financial statements, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In accordance with US GAAP, the Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable.





There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In management's opinion, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. Should the Company fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

### ***Impairment of Long-Lived Assets***

We evaluate the recoverability of our long-lived assets including tangible assets in accordance with authoritative guidance. When events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, we recognize such impairment in the event the carrying amount of such assets exceeds the future undiscounted cash flows attributable to such assets. We have not recorded any impairment losses to date.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Foreign Exchange Risk**

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted to the extent they are not hedged by the rise and fall of the relative values of Canadian dollar to these currencies. During the quarter, the rise in the value of the Canadian dollar relative to the US dollar had an adverse impact on the Company. The effect of the stronger Canadian dollar during the six months ended February 28, 2011 contributed approximately \$70,000 to the increase in operating expenses compared to the six months ended February 28, 2010.

## **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, 2011.

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 Yangaroo Inc. Yangaroo, a competitor in Canada, as described below:

- a) On March 7, 2006, the Company filed a statement of claim in the Federal Court of Canada against Yangaroo to affirm the Company's belief that the Play MPE® service does not infringe on Yangaroo's Canadian patent and to have this patent declared invalid. On June 7, 2006, the Company's counsel received a statement of defense and counterclaim from Yangaroo. Yangaroo's Chairman has since admitted under oath that he had no knowledge of Yangaroo ever having received either a legal or third party expert opinion that the Play MPE® system infringes the Yangaroo patent.
- b) On May 3, 2007, the Company filed a claim against Yangaroo and its executives for \$25,000,000 in Ontario Superior Court for defamation injurious falsehood, interference with economic relations, breaches of the Trade-marks Act and breaches of the Competition Act. On June 7, 2007, a statement of defense and counterclaim for the same complaints was filed. The Company believes the counterclaim has no merit. On January 20, 2011, the Superior Court of Justice ruled to dismiss Yangaroo's counterclaims for injurious falsehood and for interference with economic relations.
- c) On May 12, 2009, the Company was served with a complaint in United States District Court (Eastern District of Wisconsin) by Yangaroo alleging that the Company infringes on its United States patent. On June 7, 2010, the District Court dismissed Yangaroo's claim in its entirety. On March 14, 2011, The United States Court of Appeals for the Federal Circuit affirmed the earlier District Court's ruling against Yangaroo and dismissed Yangaroo's claim.

The amount of damages to the Company, 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 former employee relocated to Mexico and maintained he should keep his position. The claim is for approximately \$170,000 (\$180,000 CDN) plus an award of stock options and unspecified damages. The Company believes the claim is without merit. Management believes it is unlikely that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

### Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Item 1 Risk Factors in our Form 10-K for the fiscal year ended August 31, 2010 filed with the SEC on November 29, 2010. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially, however, they are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*****Purchases of Equity Securities by the Issuer and Affiliated Purchasers.***

On July 6, 2010, the board of directors authorized a second tranche to repurchase up to 1,500,000 shares of the Company's common stock at a maximum share purchase price of \$0.80 per share. During the quarter ended February 28, 2011, the Company has purchased 122,500 shares at an average price of \$0.41. 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 30<sup>th</sup>, 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. The following table sets forth information about our stock repurchases for the three months ended February 28, 2011.

| 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) |
|---------------------------------------|---|--|---|---|
| December 1, 2010 to December 31, 2010 | 122,500   | \$ 0.41                                | 122,500   | 741,250   |
| January 1, 2011 to January 31, 2011   |   |  |   | 741,250   |
| February 1, 2011 to February 28, 2011 |   |  |   | 741,250   |
| Total                                 | 122,500   | \$ 0.41                                | 122,500   |   |

(1) Based on trade date.

(2) All of these shares were repurchased pursuant to publicly announced share repurchase programs.

(3) During the three months ended February 28, 2011, the company repurchased a total of 122,500 shares pursuant to publicly announced share repurchase programs. All of 122,500 shares had been cancelled.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)****Item 5. Other Information****(a) Reports on Form 8-K**

On October 8, 2010, the Company announced a press release that it received approval from the TSX Venture Exchange for the listing of its common shares under the symbol `DSY`.

On October 26, 2010, the Company announced a press release that it upgraded its head office effective October 26, 2010.

On November 30, 2010, the Company announced a press release that its year end results as of August 31, 2010 showed record revenues and 176% jump in earnings compared to prior year.

On February 22, 2011, The Annual General Meeting of the stockholders (the Annual Meeting ) of Destiny Media Technologies Inc was held. At the Annual Meeting, the stockholders approved by majority vote the following three proposals:

- Elect Steve Vestergaard, Edward Kolic, Lawrence Langs, Yoshitaro Kumagai to serve as directors of the Company until the next annual meeting of the stockholders.
- Ratify the appointment of BDO Canada LLP s as the Company s independent registered public accounting firm for the year ending August 31, 2011.
- Approve and adopt the Company s Employee Stock Purchase Plan.

On February 28, 2011, Destiny Media Technologies Inc. (the Company ) received final acceptance for its Employee Stock Purchase Plan (the Plan ) from the TSX Venture Exchange (the Exchange ).

**(b) Information required by Item 407(C)(3) of Regulation S-K**

No Disclosure Necessary

**Item 6. EXHIBITS.**

Exhibit 31.1:

Certification required by Rule 13a-14(a) or Rule 15d-14(a)  
Certification executed by Steven Vestergaard, Chief Executive Officer

Exhibit 31.2:

Certification required by Rule 13a-14(a) or Rule 15d-14(a)  
Certification executed by Frederick Vandenberg, Chief Financial Officer

Exhibit 32.1:

Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Se  
Certification executed by Steven Vestergaard, Chief Executive Officer

Exhibit 32.2:

Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Se  
Certification executed by Frederick Vandenberg, Chief Financial Officer

**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: April 14, 2011

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

/s/Fred Vandenberg  
Frederick Vandenberg,  
Chief Financial Officer

