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

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 nine months ended May 31, 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	**84-1516745**
(State or other jurisdiction of incorporation or organization)	(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)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes [ ]   No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:
50,434,097 Shares of $0.001 par value common stock outstanding as of July 14, 2011.

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

Consolidated Financial Statements

Destiny Media Technologies Inc.
(Unaudited)
Nine months ended May 31, 2011

Destiny Media Technologies Inc.

CONSOLIDATED BALANCE SHEETS
(Expressed in United States dollars)
Unaudited

As at

	May 31, 2011 $	August 31, 2010 $
ASSETS		
Current		
Cash	**490,726**	491,012
Accounts and other receivables, net of allowance for doubtful accounts of $23,543 [August 31, 2010 $17,093] *[note 9]*	**592,429**	542,932
Other receivables	**39,681**	45,616
Prepaid expenses	**18,455**	32,282
Deferred tax assets	**380,000**	380,000
Total current assets	**1,521,291**	1,491,842
Deposits	**48,634**	9,496
Property and equipment, net	**152,422**	129,479
Deferred tax assets long term portion	**842,000**	948,000
Total assets	**2,564,347**	2,578,817
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	**203,199**	220,538
Accrued liabilities	**231,607**	259,388
Deferred leasehold inducement	**3,458**	
Deferred revenue	**39,302**	25,018
Obligation under capital lease current portion *[note 4]*	**7,053**	10,759
Total current liabilities	**484,619**	515,703
Obligation under capital lease long term portion *[note 4]*		3,745
Total liabilities	**484,619**	519,448
Commitments and Contingencies *[notes 4 and 7]*		
Stockholders equity *[note 3]*		
Common stock, par value $0.001 Authorized: 100,000,000 shares Issued and outstanding : 50,434,097 shares [August 31, 2010 issued and outstanding: 51,143,847 shares]	**50,434**	51,145
Additional paid-in capital	**8,753,720**	9,049,308
Accumulated deficit	**(6,953,985)**	(7,214,541)
Accumulated other comprehensive income	**229,559**	173,457
Total stockholders equity	**2,079,728**	2,059,369
Total liabilities and stockholders equity	**2,564,347**	2,578,817

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Expressed in United States dollars)
Unaudited

	Three Months Ended May 31, 2011 $	Three Months Ended May 31, 2010 $	**Nine Months Ended May 31, 2011 $**	Nine Months Ended May 31, 2010 $
Revenue *[note 9]*	**1,176,473**	952,383	**3,074,183**	2,869,775
Operating expenses				
General and administrative	**262,467**	255,487	**922,012**	768,013
Sales and marketing	**184,280**	184,801	**598,811**	578,289
Research and development	**392,818**	283,757	**1,151,463**	879,668
Amortization	**13,533**	14,669	**44,313**	38,789
	853,098	738,714	**2,716,599**	2,264,759
Income from operations	**323,375**	213,669	**357,584**	605,016
Other income (expenses)				
Other income	**43**	30,156	**3,073**	88,466
Interest income	**1,445**	641	**6,527**	2,706
Interest and other expense	**(143)**	(537)	**(628)**	(2,410)
Income before income taxes	**324,720**	243,929	**366,556**	693,778
Income tax expense - deferred	**(94,000)**		**(106,000)**	
Net Income	**230,720**	243,929	**260,556**	693,778
Net income per common share, basic and diluted	**0.01**	0.00	**0.01**	0.01
Weighted average common shares outstanding:				
Basic	**50,434,097**	51,617,515	**50,599,924**	51,789,513
Diluted	**50,790,363**	52,300,725	**51,007,838**	52,019,752

See accompanying notes

Destiny Media Technologies Inc.

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

	Common stock		**Additional paid-in capital**	**Accumulated deficit**	**Accumulated other comprehensive income**	**Total stockholders equity**
	Shares	**Amount**				
	#	$	$	$	$	$
Balance, August 31, 2009	**51,723,647**	**51,725**	**9,492,168**	**(8,900,614)**	**147,655**	**790,934**
Net income for the year				1,686,073		1,686,073
Foreign currency translation gain					25,802	25,802
Comprehensive income						1,711,875
Common stock issued on options exercised	133,200	133	6,117			6,250
Common stock issued on warrants exercised	336,000	336	(336)			
Common stock repurchased and cancelled	(1,049,000)	(1,049)	(466,611)			(467,660)
Stock options repurchased and cancelled			(30,000)			(30,000)
Stock based compensation			47,970			47,970
Balance, August 31, 2010	**51,143,847**	**51,145**	**9,049,308**	**(7,214,541)**	**173,457**	**2,059,369**
Net income				260,556		260,556
Foreign currency translation gain					56,102	56,102
Comprehensive income						316,658
Common stock repurchased and cancelled	(709,750)	(711)	(299,972)			(300,683)
Stock based compensation			4,384			4,384
	50,434,097	**50,434**	**8,753,720**	**(6,953,985)**	**229,559**	**2,079,728**

Balance, May 31, 2011	

See accompanying notes

Destiny Media Technologies Inc.

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

	Nine Months Ended May 31, 2011 $	Nine Months Ended May 31, 2010 $
OPERATING ACTIVITIES		
Net income for the period	**260,556**	693,778
Items not involving cash:		
Amortization	**44,313**	38,789
Deferred commission costs		10,415
Deferred leasehold inducement	**3,396**	
Stock-based compensation	**4,384**	55,633
Income taxes deferred	**106,000**	
Changes in non-cash working capital:		
Accounts receivable	**(7,042)**	5,501
Other receivables	**9,319**	(11,927)
Prepaid expenses and deposits	**(21,652)**	(30,135)
Accounts payable	**(33,643)**	(227,725)
Accrued liabilities	**(46,953)**	82,057
Deferred revenue	**12,108**	16,835
Net cash provided by operating activities	**330,786**	633,221
INVESTING ACTIVITIES		
Purchase of property and equipment	**(56,928)**	(67,493)
Net cash used in investing activities	**(56,928)**	(67,493)
FINANCING ACTIVITIES		
Repayments on capital lease obligations	**(8,425)**	(7,219)
Proceeds from exercise of stock options		6,250
Repurchase of shares and options	**(300,683)**	(475,884)
Repayments of shareholder loans		(71,601)
Net cash used in financing activities	**(309,108)**	(548,454)
Effect of foreign exchange rate changes on cash	**34,964**	24,204
Net increase (decrease) in cash	**(286)**	41,478
Cash, beginning of period	**491,012**	253,100
Cash, end of period	**490,726**	294,578
Supplementary disclosure		
Cash paid for interest	**628**	2,410
Non-cash investing activity		
Purchase of property and equipment included in accounts payable		5,320

See accompanying notes

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 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 nine months ended May 31, 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
Nine months ended May 31, 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 nine months ended May 31, 2011, no shares were issued.

[b] Cancelled

During the nine months ended May 31, 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 nine-month period ended May 31, 2011 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value $
Outstanding at August 31, 2010	**3,225,000**	**0.47**	**1.68**	**117,600**
Granted				
Exercised				
Expired	(50,000)	1.80		
Outstanding at May 31, 2011	**3,175,000**	**0.45**	**0.95**	**66,150**
Vested and exercisable at May 31, 2011	**3,154,167**	**0.45**	**0.93**	**66,150**

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 2011

3. SHARE CAPITAL (cont d.)

The following table summarizes information regarding the non-vested stock purchase options outstanding as of May 31, 2011:

	Number of Options
Non-vested options at August 31, 2010	**42,708**
Vested	21,875
Non-vested options at May 31, 2011	**20,833**

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company s common stock for the options that were in-the-money at May 31, 2011.

During the three and nine months ended May 31, 2011, total stock-based compensation expense related to employees of $4,384 is reported in the statement of operations as follows:

	Three Months Ended		**Nine Months Ended**	
	May 31 2011 $	May 31 2010 $	**May 31 2011 $**	May 31 2010 $
Stock-based compensation:				
General and administrative	**443**	654	**1,513**	19,195
Sales and marketing	**309**	219	**982**	14,453
Research and development	**658**	428	**1,889**	21,985
Total stock-based compensation	**1,410**	1,301	**4,384**	55,633

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Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 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:

	Three Months Ended		Nine Months Ended	
	May 31 2011	May 31 2010	**May 31 2011**	May 31 2010
Expected term of stock options (years)		2.5		0.55-2.5
Expected volatility		83%		76%-86%
Risk-free interest rate		0.88%		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 nine months ended May 31, 2011, there were no options granted. During the nine months ended May 31, 2010, 100,000 options were granted, 300,000 options were extended to one more year and 150,000 options were extended to five more years. The weighted-average grant-date fair value of options granted and extended during the nine month period ended May 31, 2010 was $0.21 and $0.11, respectively.

As of May 31, 2011 there was $4,496 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 10 months.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 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 nine months ended May 31, 2011, the Company recognized compensation expense of $50,616 in the statement of operations in respect of the Plan and 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 May 31, 2011, the Company has the following common stock warrants outstanding:

	Number of Common Shares Issuable	Exercise Price $	Date of Expiry
$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
$0.70 Warrants	500,000	0.70	April 9, 2012
	7,011,000		

*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.

The intrinsic value for these warrants is $42,000 as at May 31, 2011.

During the nine months ended May 31, 2011 235,250 (2010: 5,886) warrants expired unexercised.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 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	57,597
2012	235,330
2013	241,258
2014	40,374

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

	$
2011	3,188
2012	4,149
Total lease payments	7,337
Less: Amounts representing interest	(284)
Balance of obligation	7,053
Less: Current portion	7,053
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 May 31, 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. 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 nine months ended May 31, 2011, the Company paid $16,000 consulting fees.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 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 May 31, 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
Nine months ended May 31, 2011

7. CONTINGENCIES

a) On June 17, 2011 Destiny entered into a settlement agreement (the Settlement Agreement) with Yangaroo Inc. Yangaroo whereby the parties have agreed to settle all outstanding litigation between them.

Under the terms of the Settlement Agreement, Destiny and Yangaroo agreed to dismiss and discontinue all outstanding litigation, including claims against officers of Destiny and Yangaroo. In consideration of the settlement, Yangaroo paid Destiny a lump sum amount totaling $600,000 (Canadian Funds). To remove any doubt of future allegations of infringement, Destiny required a cost and royalty free, non-exclusive, sub- licensable, worldwide, irrevocable, license to two patents held by Yangaroo (US Patent No. 7,529,712 and Canadian Patent No. 2,407,774) for the life of each patent. Each party has agreed not to make any claim for costs against the other party.

Destiny had commenced two outstanding Canadian lawsuits (Federal Court of Canada Court File No. T-413-06 and Ontario Superior Court Ontario Court File No. 07-CV- 38068 as a result of certain activities undertaken by Yangaroo. Destiny was a defendant by counterclaim. A third lawsuit was launched in the United States (US District Court for the Eastern District of Wisconsin Green Bay Division Case No. 1:09-CV-00462), in which Destiny was defendant. The US District Court lawsuit had previously dismissed Yangaroo s claim in its entirety with the dismissal upheld on appeal during the quarter. Negotiations for settlement had been ongoing during the fiscal year until terms were finalized in May 2011. The agreement was executed June 17, 2011 and funds were transferred to Destiny on June 23, 2011. As the transfer of the $600,000 payment to Destiny was a condition precedent to the finalization of the agreement, the funds are not reflected on the Balance Sheet or Statement of Operations for the period ending May 31, 2011.

b) On August 12, 2009 the Company received a statement of claim for wrongful dismissal. The claim is for approximately $180,000 ($180,000 CDN) plus an award of stock options and unspecified damages. The Company believes the claim is without merit and has filed a counterclaim. Management believes it is unlikely that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

c) On January 26, 2011, the Company served a claim in United States District Court District Of New Jersey against Envirosight LLC for using the brand name "Clipstream" for one of their products, thereby infringing on the Company's trademark rights. The parties are currently negotiating a settlement agreement which is expected to include an injunction against further infringing activities.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 2011

7. CONTINGENCIES (cont d.)

d) On June 10, 2011, the Company filed a claim in the Federal Court of Australia in Melbourne, Australia against Shooting Star and one of their officers for breach of contract and other related claims. Shooting Star was a distributor based in Australia and New Zealand that had been representing the Company's products in that jurisdiction. The defendants have not yet filed a response to the claims. Australian and New Zealand customers are now being supported and contracted directly by the Company and the distribution agreement has been repudiated.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 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
Nine months ended May 31, 2011

8. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)

In May 2011, the FASB issued Accounting Standards Update 2011-14, “Fair Value Measurement (Topic 820)”. This Update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and International Financial Reporting Standards (“IFRS”). The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and they explain how to measure fair value and they do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments in this Update apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity’s shareholders’ equity in the financial statements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-15, Presentation of Comprehensive Income (Topic 220) . The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity, among other amendments in this Update. The amendments require that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this update on the consolidated financial statements.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited
Nine months ended May 31, 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		**Nine Months Ended**	
	May 31 2011 $	May 31 2010 $	**May 31 2011 $**	May 31 2010 $
MPE®				
North America	**685,843**	539,576	**1,689,836**	1,616,237
Europe	**387,065**	303,530	**1,070,909**	914,253
Australasia	**68,296**	46,962	**170,037**	139,016
Total MPE®	**1,141,204**	890,068	**2,930,782**	2,669,506
Clipstream ® & Pirate Radio				
North America	**35,269**	62,315	**143,401**	200,269
Outside of North America				
Total Clipstream ® & Pirate Radio	**35,269**	62,315	**143,401**	200,269
Total revenue	**1,176,473**	952,383	**3,074,183**	2,869,775

During the nine months ended May 31, 2011, three customers represented 65% of the total revenue balance (May 31, 2010 three customers represented 62% of the total revenue balance). During the three months ended May 31, 2011, three customers represented 68% of the total revenue balance (May 31, 2010 three customers represented 60% of the total revenue balance).

As at May 31, 2011, three customers represented 72% 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
Nine months ended May 31, 2011

10. SUBSEQUENT EVENTS

On June 17, 2011 Destiny entered into a settlement agreement (the Settlement Agreement) with Yangaroo Inc. Yangaroo whereby the parties have agreed to settle all litigation between them. Under the terms of the Settlement Agreement, the Company and Yangaroo agreed to dismiss and/or discontinue all outstanding litigation, including claims against officers of Destiny and Yangaroo. In consideration of the settlement, Yangaroo paid Destiny a lump sum amount totaling $600,000 (Canadian Funds), and granted the Company a cost and royalty free, non-exclusive, worldwide, irrevocable, license to two patents held by Yangaroo (US Patent No. 7,529,712 and Canadian Patent No. 2,407,774). Each party has agreed not to make any claim for costs against the other party. The settlement has not been reflected in the Results of Operations or Balance Sheet for the period ending May 31, 2011.

On June 28, 2011, the board of directors authorized a new tranche to repurchase up to 2,500,000 shares of the Company's common stock at a maximum share purchase price of $0.80 per share. All repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. The board approved stock repurchase program runs through June 30th, 2012. 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.

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

OVERVIEW AND CORPORATE BACKGROUND

Destiny Media Technologies, Inc. was incorporated in August 1998 under the laws of the State of Colorado. We carry out our business operations through our wholly owned subsidiary, Destiny Software Productions Inc., a British Columbia company that was incorporated in 1992, and MPE Distribution, Inc. a Nevada company that was incorporated in 2007. The Company , Destiny or we refers to the consolidated activities of all three companies.

Our principal executive office is located at 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 95% 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 NINE MONTHS ENDED MAY 31, 2011

Revenue

Total revenue for the nine months ended May 31, 2011 grew by approximately 7% over the same period in the prior year to $3,074,183 (May 31, 2010 - $2,869,775) or 40% over the immediately preceding quarter despite a decline in Clipstream® revenue.

Revenue from the Play MPE® system represents over 95% of our revenue. The Play MPE® system saw access fee revenue grow to $2,930,782 (May 31, 2010 - $2,669,506) for the nine month period ending May 31, 2011 representing a 10% increase over the same period in the prior year. Quarterly revenue for Play MPE® grew to $1,142,204 representing a 28% increase over the same quarter in the previous year or 45% over the immediately preceding quarter and is the highest quarterly revenue that Play MPE® has observed. During the year Play MPE® expanded into New Zealand and several European countries began using Play MPE® in small amounts.

European revenue continues to grow but is concentrated mainly in the United Kingdom and the Scandinavian countries. In 2009, Play MPE® was translated into 25 languages to facilitate global expansion, however each region presents unique issues such as unique cultures, recipient preferences, privacy laws, political systems and requirements for local training, demonstration and representation. Our approach to global expansion is to address these concerns within the scope of our capacity and grow sequentially at each location while maintaining a superior product in our more successful areas. We work closely with the major labels as we work with their staff to rollout the system to their regional sub-labels around the world and to address local requirements.

For example, the Play MPE® system needed to be adjusted for Germany s unique privacy laws. This was completed during the quarter. As such, while the German language represents the second most commonly selected language, our

European revenue does not yet include an appreciable amount from Germany. In Japan we reached an agreement with All Access Today Japan, Inc. (AATJ) in May 2011. As part of this agreement, AATJ will represent Play MPE® in Japan.

Seasonal fluctuations in our revenue from quarter to quarter result from slowdowns in the music industry or contractual variations. Play MPE® has shown steady improvement, growing in 15 of the previous 19 quarters averaged approximately 20% growth per quarter during that time.

Play MPE® has grown due to its superior offering including a significant cost reduction compared to physical delivery. Play MPE® has several value added propositions and we believe it presents the best digital delivery system in the market. During the quarter, a competitor agreed to terms with a former marketing partner in Australia and has offered our clients a significant reduction in pricing. Where pricing is the primary and motivating concern, we have seen some erosion in our customer base, however, we believe Play MPE® offers a much greater value despite a higher price point than this competitor and we have retained most of our clients in that market.

Approximately 37% of our Play MPE® revenue is denominated in Euros. Play MPE® revenue from Europe for the nine months ended May 31, 2011 reached $1,070,909 (May 31, 2010 - $914,253) representing an increase of 17% in spite of a 2% decline in the value of the Euro relative to the US dollar. Approximately 57% of Play MPE® revenue is denominated in US Dollars and 6% of Play MPE® revenue is denominated in Australia Dollars.

Operating Expenses

Overview

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

Total operating expenditures for the nine months ended May 31, 2011 has increased by 20% over the same period in the prior year to $2,716,599 (2010 - $2,264,759). This increase is due to an increase in the volume of legal work associated with a recent litigation with a Canadian competitor settled immediately following the quarter, one-time costs associated with our listing on the TSX Venture Exchange 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 May 31, 2011 have increased by approximately $110,000 over the same quarter of the previous year to $853,098 (2010 - $738,714). The increase is due mostly to increased salaries and wages costs as a result of unfavorable exchange fluctuations, additional staff and salary adjustments and an increased volume of legal work. However operating expenditures decreased by almost 6% when compared to our second quarter of the year. We anticipate the recent litigation settlement will greatly reduce our legal expenditures in the future.

Rent expense of $173,071 is offset by our sub-lease rental income of $3,073 which is included in Other income in the Statement of Operations.

General and administrative	**31-May 2011** (9 months) $	**31-May 2010** (9 months) $	**$ Change**	**% Change**
Wages and benefits	270,764	262,460	8,304	3.2%
Rent	30,291	48,264	(17,973)	-37.2%
Telecommunications	13,939	16,540	(2,601)	-15.7%
Bad debt	9,773	(20,894)	30,667	-146.8%
Office and miscellaneous	176,067	138,595	37,472	27.0%
Professional fees	421,178	323,048	98,130	30.4%
	922,012	768,013	153,999	20.1%

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

Office and miscellaneous expenditures include fees associated with our TSX Venture listing. Most of these fees are non-recurring are associated with the initial listing which took place in October 2010.

The increase in professional fees is due to an increase of volume of legal work associated with litigation and corporate costs associated with our annual general meeting and arrangements made for our employee share purchase plan. Litigation costs associated with Yangaroo represent approximately half (48%) of the costs for professional fees for the nine month period ending May 31, 2011. We are happy to report that we have settled all outstanding litigation with Yangaroo immediately following the current quarter. The successful resolution to this long running dispute is expected to reduce the litigation costs we have been incurring since fiscal 2006 and will allow management to more greatly focus our time on growing the business with existing and new products. As part of the settlement, we required a lump sum amount totaling $600,000 (Canadian Funds) from Yanngaroo and, to remove any possibility of future allegations of infringement, Destiny required a cost and royalty free, non-exclusive, sub-licensable, worldwide, irrevocable, license to two patents held by Yangaroo (US Patent No. 7,529,712 and Canadian Patent No. 2,407,774) for the life of each patent. The lump sum settlement from Yangaroo will be reflected in our fourth quarter results. Also during the nine months ending we had costs associated with other litigation described below.

Bad debt recoveries declined as a large recovery for unpaid fees was realized during fiscal 2010.

Sales and marketing	**31-May 2011** (9 months) $	**31-May 2010** (9 months) $	**$ Change**	**% Change**
Wages and benefits	303,825	291,238	12,587	4.3%
Rent	32,184	49,873	(17,689)	-35.5%
Telecommunications	14,810	17,092	(2,282)	-13.4%
Meals and entertainment	7,367	5,562	1,805	32.5%
Travel	34,880	21,600	13,280	61.5%
Advertising and marketing	205,745	192,924	12,821	6.6%
	598,811	578,289	20,522	3.5%

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 nine months ended March 31, 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.

Research and development	**31-May 2011** (9 months) $	**31-May 2010** (9 months) $	**$ Change**	**% Change**
Wages and benefits	988,613	705,143	283,470	40.2%
Rent	110,597	129,670	(19,073)	(14.7%)
Telecommunications	50,893	44,855	6,038	13.5%
Research and development	1,360	-	1,360	N/A
	1,151,463	879,668	271,795	30.9%

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 $44,313 for the nine months ended May 31, 2011 from $38,789 for the nine months ended May 31, 2010, an increase of $5,524 or 14%.

Other earnings and expenses

Other income decreased to $3,073 for the nine months ended May 31, 2011 from $88,466 for the nine months ended May 31, 2010, a decrease of $85,393. The decrease was due to our move into a new office space and the termination of sub-lease agreements.

Interest income increased to $6,527 for the nine months ended May 31, 2011 from $2,706 for the nine months ended May 31, 2010, an increase of $3,821.

Interest expense decreased to $628 for the nine months ended May 31, 2011 from $2,410 for the nine months ended May 31, 2010, a decrease of $1,782.

Net income

During the nine months ended May 31, 2011, we have net income of $260,556 (May 31, 2010 net income of $693,778). The decrease in net income during the period is the result of provision for deferred income taxes, increased expenses of professional fees, a one-time cost related to the TSX-V listing application and increased salaries and wages costs which are due in part to unfavorable exchange fluctuations, additional staff and salary adjustments.

	2010 Q1 $	**2010 Q2** $	**2010 Q3** $	**2010 Q4** $	**2011 Q1** $	**2011 Q2** $	**2011 Q3** $
Net Income	322,680	127,169	243,929	992,295	72,863	(43,027)	230,720
Amortization and stock compensation	11,646	66,806	15,970	6,654	18,257	15,497	14,943
Net Interest expense	385	(577)	(104)	(586)	(2,497)	(2,100)	(1,302)
Income tax	-	-	-	(878,000)	29,000	(17,000)	94,000
EBITDA	334,711	193,398	259,795	120,363	117,623	(46,630)	338,361

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $490,726 as at May 31, 2011 (August 31, 2010 - $491,012). We had working capital of $1,036,672 as at May 31, 2011 compared to working capital of $976,139 as at August 31, 2010. The increase in our working capital was mainly due to increased accounts receivable and decreased accounts payable.

CASHFLOWS

Net cash generated in operating activities was $330,786 for the nine months ended May 31, 2011, compared to $633,221 for the nine months ended May 31, 2010. Although our revenue was higher than 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 and timely payment on accounts payable.

The cash used in investing activities was $56,928 for the nine months ended May 31, 2011. The net cash used in investing activities was $67,493 for the nine months ended May 31, 2010. The decrease is primarily due to the higher amount purchase of computer and office equipment in the same period in 2010.

Net cash used in financing activities was $309,108 for the nine months ended May 31, 2011 compared to $548,454 for the nine months ended May 31, 2010. The decrease is mainly the result of less repurchasing common shares outstanding in 2011.

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.

In May 2011, the FASB issued Accounting Standards Update 2011-14, "Fair Value Measurement (Topic 820)". This Update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and International Financial Reporting Standards ("IFRS"). The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and they explain how to measure fair value and they do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments in this Update apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-15, "Presentation of Comprehensive income (Topic 220)". The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this Update. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. 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 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 $1,212,000.

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 nine months ended May 31, 2011 contributed approximately $100,000 to the increase in operating expenses compared to the nine months ended May 31, 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 May 31, 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

a) On June 17, 2011 Destiny entered into a settlement agreement (the Settlement Agreement) with Yangaroo Inc. Yangaroo whereby the parties have agreed to settle all outstanding litigation between them.

Under the terms of the Settlement Agreement, Destiny and Yangaroo agreed to dismiss and discontinue all outstanding litigation, including claims against officers of Destiny and Yangaroo. In consideration of the settlement, Yangaroo paid Destiny a lump sum amount totaling $600,000 (Canadian Funds). To remove any doubt of future allegations of infringement, Destiny required a cost and royalty free, non-exclusive, sub-licensable, worldwide, irrevocable, license to two patents held by Yangaroo (US Patent No. 7,529,712 and Canadian Patent No. 2,407,774) for the life of each patent. Each party has agreed not to make any claim for costs against the other party.

Destiny had commenced two outstanding Canadian lawsuits (Federal Court of Canada Court File No. T-413-06 and Ontario Superior Court Ontario Court File No. 07-CV-38068 as a result of certain activities undertaken by Yangaroo. Destiny was a defendant by counterclaim. A third lawsuit was launched in the United States (US District Court for the Eastern District of Wisconsin Green Bay Division Case No. 1:09-CV-00462), in which Destiny was defendant. The US District Court lawsuit had previously dismissed Yangaroo s claim in its entirety with the dismissal upheld on appeal during the quarter.

Negotiations for settlement had been ongoing during the fiscal year until terms were finalized in May 2011. The agreement was executed June 17, 2011 and funds were transferred to Destiny on June 23, 2011. As the transfer of the $600,000 payment to Destiny was a condition precedent to the finalization of the agreement, the funds are not reflected on the Balance Sheet or Statement of Operations for the period ending May 31, 2011.

b) On August 12, 2009 the Company received a statement of claim for wrongful dismissal. The claim is for approximately $180,000 ($180,000 CDN) plus an award of stock options and unspecified damages. The Company believes the claim is without merit and has filed a counterclaim. Management believes it is unlikely that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

c) On January 26, 2011, the Company served a claim in United States District Court District Of New Jersey against Envirosight LLC for using the brand name "Clipstream" for one of their products, thereby infringing on the Company's trademark rights. The parties are currently negotiating a settlement agreement which is expected to include an injunction against further infringing activities.

d) On June 10, 2011, the Company filed a claim in the Federal Court of Australia in Melbourne, Australia against Shooting Star and one of their officers for breach of contract and other related claims. Shooting Star was a distributor based in Australia and New Zealand that had been representing the Company's products in that jurisdiction. The defendants have not yet filed a response to the claims. Australian and New Zealand customers are now being supported and contracted directly by the Company and the distribution agreement has been repudiated.

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 June 28, 2011, the board of directors authorized a new tranche to repurchase up to 2,500,000 shares of the Company s common stock at a maximum share purchase price of $0.80 per share. The Company didn t repurchase any shares during the quarter ended May 31, 2011. Future repurchases will be at times and in amounts as the Company deems appropriate and will be made through open market transactions. All repurchases will be made in compliance with the Securities and Exchange Commission s Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. The board approved stock repurchase program runs through June 30th, 2012. 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.

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 by 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 by press release that it upgraded its head office effective October 26, 2010.

On November 30, 2010, the Company announced by 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).

On June 17, 2011, Destiny Media Technologies Inc. and its subsidiaries, Destiny Software Productions Inc. and MPE Distribution, Inc., entered into a settlement agreement dated June 17, 2011 (the Settlement Agreement) with Yangaroo Inc. whereby the parties have agreed to settle all litigation between them.

(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. Section 1350 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. Section 1350 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: July 14, 2011

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

/s/Fred Vandenberg
Frederick Vandenberg, Chief Financial Officer