DESTINY MEDIA TECHNOLOGIES INC
Form 10-K/A
March 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

[X] Annual Report Pursuant To Section 13 Or 15(D) Of The Securities Exchange Act Of 1934
For the fiscal year ended **August 31, 2009**

[ ] Transition Report Under Section 13 Or 15(D) Of The Securities Exchange Act Of 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER **000-28259**

DESTINY MEDIA TECHNOLOGIES INC.

(Name of small business issuer in its charter)

COLORADO (State or other jurisdiction of incorporation or organization)	**84-1516745** (I.R.S. Employer Identification No.)
570 Granville Street, Suite 800 **Vancouver, British Columbia, Canada** (Address of principal executive offices)	**V6C 3P1** (Zip Code)
604-609-7736 Issuer's telephone number	
Securities registered under Section 12(b) of the Exchange Act:	**NOT APPLICABLE**
Securities registered under Section 12(g) of the Exchange Act:	**COMMON STOCK, PAR VALUE $0.001 PER SHARE**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 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]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at
which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s
most recently completed second fiscal quarter.

38,092,659 common shares @ $0.20 [(1)]= $7,618,531

(1) Closing price as quoted on the OTC Bulletin Board on February 27, 2009.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

52,059,647 Shares of $0.001 par value common stock outstanding as of November 26, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

None

DESTINY MEDIA TECHNOLOGIES INC.
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PART I

FORWARD LOOKING STATEMENTS

The information in this Annual Report on Form 10-K 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 Destiny Media'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", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below, and, from time to time, in other reports Destiny Media files with the SEC. These factors may cause Destiny Media's actual results to differ materially from any forward-looking statements. Destiny Media 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.

CURRENCY

All dollar amounts in this Annual Report on Form 10-K are presented in United States dollars unless otherwise indicated.

ITEM 1. DESCRIPTION OF BUSINESS.

OVERVIEW AND CORPORATE BACKGROUND

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

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

Our common stock trades on the OTC Bulletin board under the symbol DSNY and on various German exchanges (Frankfurt, Berlin, Stuttgart and Xetra) under the symbol DME 935 410.

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

OUR PRODUCTS

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

The MPE® Product Line

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

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

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

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

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

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

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

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

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

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

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

The Clipstream® Product Line

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

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

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

A) Licenses http://www.clipstream.com	E) Server licenses http://www.clipstreamserver.com
B) On demand audio streaming http://www.clipstreamaudio.com	F) Telephone streaming http://www.audio-mail.com
C) Internet Radio	G) Video Survey Solutions

http://www.pirateradio.com	http://www.surveyclip.com

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D) Internet TV http://live.clipstream.com	H) Advertising Solutions http://www.clipstreamad.com

BUSINESS DEVELOPMENT

MPE®

Play MPE® was first marketed to the recording industry as an alternative to the much higher cost physical (couriered envelopes) distribution of CD copies of their pre-release music. For several reasons, the concept was well received by our record label clients and by radio. The initial challenge was in changing the way the entire industry distributed and received their music. Record labels were initially unwilling to pay and commit to digital only transmission until radio adopted the system while radio was concerned about the volume of new content (songs) in the system. Consequently the Company initially provided the Play MPE® service free from charge while promoting the system to both radio and record labels. Full commercialization in the United States began in January 2008. Revenue from Play MPE® has consistently grown over the past four years with the larger increases coming in the most recent twelve to eighteen months.

2009 proved to be a pivotal year for both the Play MPE® service and the Company as the Play MPE® network expanded into Europe, Australia and Canada and showed continued growth in the US. The Company established agreements within the industry, while providing extensive technical advancements, enhancing the value of the Play MPE® service and providing additional barriers to entry for potential competitors. Some of the highlights for the year include:

- December 2008: Play MPE® enrolls in the internationally approved antipiracy certification program of the Content Distribution and Storage Association (CDSA)
- February 2009: Warner Music Group announced a global commercial contract to use Play MPE® representing our third (of four) US Major Record Labels under agreement
- February 2009: Patent Granted for locking security technology entitled *Digital Media Distribution Method and System*
- November 2008 - February 2009: Australian expansion includes EMI, Warner Music Group, Universal Music Group, and Shock Records (etc)
- March 2009: New versions of server system and encoder, under development since 2006, supporting new features including multiple server locations, real time backup, failover, label staff collaboration tools, and lists and content control and reuse across territories.
- April 2009: New player software for Windows and PC, available in 24 languages redesigned to support global expansion.
- May 2009: In the 3rd quarter of fiscal 2009, the Company showed its first operating profit on the strength of a 42% increase in revenue from the prior quarter and consistent increases in overall revenue.
- May 2009: Tracing security technology patent entitled *Methods for Watermarking Media Data* application expanded to include European Union and Japan.
- May 2009: Universal Music Group, based in the United Kingdom announced a new commercial agreement to use Play MPE® in 77 additional territories covering the globe outside of North America.
- August 2009: Revenue increased to $872,549 for the 4th quarter ended August 31, 2009 resulting in income and earnings before interest taxes depreciation and amortization (EBITDA) $302,749 for the quarter.
- September 2009: Apple approves Play MPE® iPhone App now available on iTunes. This proprietary player software provides Play MPE® industry recipients, including staff at Apple, extremely high quality broadcast quality audio files and playback which can be optionally downgraded to provide playback through iTunes.

Clipstream®

Our traditional area of strength for sales in Clipstream® licenses is the market research community where it has become a standard for secure global questionnaires. Because of the cost of acquisition of a survey participant and the sensitivity of the content, the high play rate and security of the Clipstream® solution is critical. This area was adversely impacted by the economic conditions in 2009, but is expected to be an area of growth for the Company in 2010.

The main focus for Clipstream® in fiscal 2009 was the development of higher margin recurring service based offerings. The Clipstream® Cloud offering was originally expected to launch in 2009 but was delayed by diversion of resources to the new Play MPE® service infrastructure. The launch of this solution is expected to occur in the first half of fiscal 2010.

Development of professional service based versions of Clipstream® TV and Clipstream® Radio began in the second half of 2009 and these solutions are also expected to be available in fiscal 2010.

While the Company will continue to offer Clipstream® technology licenses, the fiscal 2010 sales focus will be on market research and these two new services currently under development:

1. Clipstream® Cloud Offering

Like a You Tube for Business , this solution will be an easy to use solution which allows business people to display and share rich media content without going through an IT department. Self serve accounts will be marketed directly to individuals who can purchase monthly recurring access plans with their corporate or personal credit cards while OEM versions of the system will be marketed to larger accounts that would be able to rebrand to their customer base.

Audio and video content would be automatically encoded into the Clipstream® format for streaming, while the original would still be available for download. A telephone based system would allow users to leave audio messages, which would be automatically converted into streaming audio content. Content types would not be restricted and users would be empowered to upload any digital content (web pages, photos, documents, etc.).

Users can choose from an included webpage or to embed the uploaded content into a website of their choosing. For example, a video could be posted in a discussion forum and would appear to be part of that discussion site but would be hosted by Clipstream® servers. Advertisers could create rich media ads including rollover audio and video that they could paste into the sites they advertised on.

The solution will feature the ability to create and maintain email lists, so that rich content can be sent to subscribers by the Clipstream® servers and access control and reporting will be available for each asset.

2. Internet Radio and Internet TV

Destiny currently markets Internet radio under the Radio Destiny brand as a software sale to hobbyists who broadcast using their own bandwidth. Destiny provides a directory (http://www.stationdirectory.com) to access these hobbyist signals.

Destiny also sells licenses for Internet TV software. Users can run the software on their local computer (requires a low cost TV tuner card) and access their signal globally and without player software from any web browser.

In fiscal 2010, the Company will be rolling out professional versions of these tools which automatically repeat the signals through Destiny s servers enabling radio and TV broadcasters to more easily and economically transmit their terrestrial signal at high volume to recipients through their company web page. These products will be marketed through pop up download links in the Play MPE® network and directly to the head offices of the chains.

Ancillary services, such as the ability to log the broadcast stream to Destiny s servers to meet regulatory archiving requirements may be built out in future versions.

Marketing of the new Clipstream® solutions is expected to be viral and initially to existing customers and is expected to be largely sustained from Clipstream® sales. The goal is for these new business units to be profitable in 2010 and for growth in these units to be funded through positive cash flow

OUR BUSINESS OPERATIONS

We lease 10,100 square feet of office space, with the lease expiring in August of 2010, and we currently have twenty full time employees and one part time employee. Our employees include our President and Chief Executive Officer, Chief Financial Officer, ten sales and technical support personnel, and five software developers. We also employ contractors as needed.

We manage our own server infrastructure and use the services of an external hosting facility. We have racks of server and storage hardware at three physical locations (two in Vancouver, Canada and one in London, England). Servers are highly redundant with RAID s, custom switches, redundant power supplies and multiple connections to the internet backbone. The primary access to customers it through the Vancouver primary server which connects into the backbone at one gigabit per second.

COMPETITION

MPE®

Although there are regional competitors in some geographic locations, the system is leading the industry towards becoming the global standard for distributing pre-release music digitally with all four US Major Record labels and hundreds of major independents and promoters commercially using Play MPE® with large growth seen across geographic lines. The Play MPE® service is currently being rolled out in Europe, Asia, Africa and South America and the plan to roll out the system to seventy-seven countries in fiscal 2010 has commenced.

The main competitor for our Play MPE® distribution service remains the physical distribution of music CDs and promotional security free digital distribution of MP3 s. The Company is not aware of a secure digital distribution competitor with a comparable or significant presence in the US or internationally.

Barriers to entry include the installed base of our encoder and player software, our brand familiarity, our partnerships with other industry participants, our lead time in developing our offering and our proprietary patented technologies and trade secrets. The MPE® system has been under development since 1999 and would take a number of years of development for a new competitor to provide a similar offering.

Clipstream®

Our principal competitor for Clipstream® is Adobe Flash and to a lesser extent, the player solutions provided by Apple and Microsoft. Flash is recognized as the dominant player in the space, with a near monopoly over instant play streaming video. Clipstream® has a number of economic and usability advantages that make it extremely compelling in certain circumstances, but the margins on streaming licenses are low. The corporate strategy is to license Clipstream® to niches where its cost, security and performance advantages are extremely beneficial, while creating new service offerings that embrace competing technologies while extending them with the benefits of Clipstream®. The Clipstream® Cloud, a hosted solution featuring automated encoding and reporting uses up to 90% less bandwidth than hosting solutions provided by other technologies, so the Company will be positioned to provide the same service at a much lower internal cost then competitors.

Competitors for the new Clipstream® Cloud hosting solutions will include video encoding companies, Internet hosting companies and file sharing companies such as Yousendit and Rapidshare. All are substantially larger than we are and have significantly greater financial resources available and have increased their commitment to and presence in the streaming media industry. We anticipate they will continue to increase the competitive pressure in the overall market for streaming media software. This increased competition could lead to increased pressure to decrease the price of streaming media software. This pressure on price could force us to reduce the price that we are able to charge our customers for our software products.

Clipstream® Advantages

- A Clipstream® powered website does not require that its visitors download and install player software. Clipstream® just plays. Other solutions require intrusive codecs and new versions of their player in the background.
- As Clipstream® is playerless, management estimates that at least 10% more visitors see the rich media content
- Clipstream® playback takes minimal CPU and memory resources, so the viewer's computer is free for other tasks. This means that many Clipstream® objects can appear on the same page. Other solutions often restrict to one piece of content per page.
- The Clipstream® solution is less intrusive and, as a result, safer for users. Alternative solutions control a user s device and can be used by malicious sites to install malware. Because it is restricted to the safe Java sandbox, Clipstream® content will never crash or compromise your machine.
- Clipstream® content is uploaded to any brand of web server and just works. Alternative solutions require that you purchase, install and configure streaming server systems, running on dedicated hardware.
- Clipstream® plays on any Java enabled device, so playback is not restricted to computers. This cross platform approach means the same object will work for any browser on any brand of computer or device at any bitrate. (An autodetect procedure automatically delivers the highest possible stream quality).
- Because there is no player, Clipstream® encoded media never becomes obsolete and never has to be re-encoded. Content encoded in Clipstream® ten years ago still plays today. Other solutions launch new player software without backwards compatibility.
- Clipstream® media will automatically cache because it is an ordinary web component, just like a graphic or a block of text. This means that Clipstream will save up to 90% on bandwidth cost (over 90% for ads), while providing much more reliable playback This standards based approach means that there is no limit to simultaneous streams.
- Clipstream® components can be uploaded to the cloud for third party hosting. Player solutions require complicated server farms to handle more than a few thousand simultaneous visitors.
- Clipstream® objects can be embedded into databases for long terms storage and easy context sensitive retrieval. Every aspect of the Clipstream® engine can be accessed by web authoring tools to create a customized look and feel
- Dozens of parameters provide functionality not available from any other streaming solution. For example, Clipstream® provides the only technology available to link every pixel or group of pixels in a banner to a different audio stream. This technology can be used for audio navigation of a website or to provide ads that do not require the visitor to leave the host site to listen to an ad.

We must continue to innovate and improve the performance of our software products to compete in the media technologies market, to maintain our customer base and to increase our customer base. We anticipate that consolidation will continue in this industry and related industries such as computer software, media and communications. Consequently, competitors may be acquired by, receive investments from or enter into other commercial relationships with, larger, well-established and well-financed companies. There can be no assurance that we will be able to establish or sustain a leadership position in these market segments. We are committed to working toward market penetration of our brand, products and services, which, as a strategic response to changes in the competitive environment, may require pricing, licensing, service or marketing changes intended to extend our current brand and technology. Price concessions or the emergence of other pricing or distribution strategies by competitors may reduce the prices that we may charge our customers for our software products. In addition, many of our current and potential competitors have greater name recognition, larger overall installed bases, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. These competitive factors may have a material adverse effect on our business, financial condition and results of operations.

GOVERNMENT REGULATION

We are not currently subject to direct regulation by any governmental agency other than laws and regulations generally applicable to businesses. It is possible that a number of laws and regulations may be adopted in both the United States and Canada with particular applicability to the Internet. Governments have and may continue to enact legislation applicable to us in areas such as content distribution, performance and copying, other copyright issues, network security, encryption, the use of key escrow data, privacy protection, caching of content by server products, electronic authentication or digital signatures, illegal or obscene content, access charges and retransmission activities. The applicability to the Internet of existing laws governing issues such as property ownership, content, taxation, defamation and personal privacy is also uncertain. Export or import restrictions, new legislation or regulation or governmental enforcement of existing regulations may limit the growth of the Internet, increase our costs of doing business or increase its legal exposure.

RISK FACTORS

We face risks in executing our business plan and achieving revenues. The following risks are material risks that we face. We also face the risks identified elsewhere in this Annual Report, including those risks identified under Item 1 Description of Business, including Competition and Government Regulation, and Item 6 Management Discussion and Analysis or Plan of Operations. If any of these risks occur, our business and our operating results and financial condition could be seriously harmed.

If revenues decline, then our financial condition and results of operations will be adversely affected.

Approximately 88% of our revenue is generated from our Play MPE® distribution service. The main competitor for our Play MPE® system remains the physical distribution of music CDs and promotional security free digital distributions of MP3 s. Competitors may arise and/or customers may not renew distribution contracts. This factor could cause our revenue to decrease with the result that our financial condition and operating results would be adversely affected.

If we are not able to control our operating expenses, then our financial condition may be adversely affected.

We have been successful in containing our operating expenses. Operating expenses decreased substantially to $2,515,666 for the year ended August 31, 2009 from $3,983,821 for the year ended August 31, 2008. Our ability to achieve profitability is conditional upon our ability to maintain our operating expenses. While we have been successful in containing our operating expenses, there is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

If we are not successful in legal proceedings against us, then our business and financial condition could be adversely affected.

We are currently party to four claims against the Company, as described in Item 3 of Part I under the heading Legal Proceedings . If we are not successful in these legal proceedings and are forced to make payments of damages to the plaintiffs, then our business and our financial condition would be adversely affected.

Our success is dependent, to a large degree, upon the efforts of Mr. Steve Vestergaard, our current executive officer.

Mr. Vestergaard was the founder of Destiny Software and has been involved in our business operations since our inception. The loss or unavailability of Mr. Vestergaard could have an adverse effect on our business operations and financial condition. We do not maintain key man life insurance policies for Mr. Vestergaard or for any of our other employees. In addition, our continued success is dependent upon our ability to attract and retain qualified personnel in all areas of our business, especially management positions. In the event that we are unable to attract and retain qualified personnel, our business would be adversely affected.

Our financial results may be adversely impacted by currency fluctuations.

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. An increase in the value of the Canadian dollar in relation to the United States dollar and/or Euro could have the effect of increasing our loss from operations. Management is in a position to counteract negative impacts through hedging contracts which can mitigate some of this loss.

If our products are defective or contain errors, we may become subject to product liability claims.

As a result of their complexity, our software products may contain undetected errors or failures when first introduced or as new versions are released. There can be no assurance that, despite testing we undertake and testing and use by current and potential customers, errors will not be found in new products after commencement of commercial shipments. The occurrence of such errors could result in loss of or delay in market acceptance of our products, which could have a material adverse effect on our business, financial condition and results of operations. Our products also may be vulnerable to break-ins and similar disruptive problems caused by Internet or other users.

Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through the computer systems of our customers, which may result in significant liability to us and deter potential customers. The sale and support of our products may entail the risk of liability claims. A product liability claim brought against us could have a material adverse effect on our business, financial condition and results of operations.

Our ability to manage growth.

Should we be successful in the sales and marketing efforts of our software products, we will experience significant growth in operations. If this occurs, management anticipates that additional expansion will be required in order to continue our product development. Any expansion of our business would place further demands on our management, operational capacity and financial resources. We anticipate that we will need to recruit qualified personnel in all areas of its operations, including management, sales, marketing, delivery, and software development. There can be no assurance that we will be effective in attracting and retaining additional qualified personnel, expanding its operational capacity or otherwise managing growth. In addition, there can be no assurance that our current systems, procedures or controls will be adequate to support any expansion of our operations. The failure to manage growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Risk of system failure and/or security risks.

Despite the implementation of security measures, our network infrastructure could be vulnerable to unforeseen computer problems. Although we believe we have taken steps to mitigate much of the risk, we may in the future experience interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others. Unknown security risks may result in liability to us and also may deter new customers from purchasing our software and services, and individuals from utilizing it. Although we intend to continue to implement and establish security measures, there can be no assurance that measures implemented by us will not be circumvented in the future, which could have a material adverse effect on our business, financial condition or results of operations.

Lack of established market for products and services; dependence on internet and intranets as mediums of commerce and communications.

The market for our streaming media products and services is new and evolving rapidly. It depends on increased use of the Internet and intranets. If the Internet and intranets are not adopted as methods for commerce and communications, or if the adoption rate slows, the market for our products and services may not grow, or may develop more slowly than expected.

The electronic commerce market is relatively new and evolving. Sales of our products depend in large part on the development of the Internet as a viable commercial marketplace. There are now substantially more users and much more traffic over the Internet than ever before, use of the Internet is growing faster than anticipated, and the technological infrastructure of the Internet may be unable to support the demands placed on it by continued growth. Delays in development or adoption of new technological standards and protocols, or increased government regulation, could also affect Internet use. In addition, issues related to use of the Internet and intranets, such as security, reliability, cost, ease of use and quality of service, remain unresolved and may affect the amount of business that is conducted over the Internet and intranets.

Product delays and errors.

We have experienced development delays and cost overruns associated with its product development. We may encounter such problems in the future. Delays and cost overruns could affect our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements. Our products also may contain undetected errors that could cause adverse publicity, reduced market acceptance of the products, or lawsuits by customers.

Online commerce security risks.

Online commerce and communications depend on the ability to transmit confidential information securely over public networks. Any compromise of our ability to transmit confidential information securely, and costs associated with the prevention or elimination of such problems, could have a material adverse effect on our business.

International operations.

We market and sell our products in the United States, Canada, Europe, Asia, South America, Africa and Australia. As such, we are subject to the normal risks of doing business abroad. Risks include unexpected changes in regulatory requirements, export and import restrictions, tariffs and trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, potential adverse tax consequences, exchange rate fluctuations, increased risks of piracy, limits on the our ability to enforce our intellectual property rights, discontinuity of our infrastructures, limitations on fund transfers and other legal and political risks. Such limitations and interruptions could have a material adverse effect on our business. We do not currently hedge our foreign currency exposures.

Dividend policy.

We do not presently intend to pay cash dividends in the foreseeable future, as any earnings are expected to be retained for use in developing and expanding its business. Our ability to declare dividends will depend on results of operations, cash requirements and future prospects of us and other factors.

The global financial crisis may have impacts on our business and financial condition that we currently cannot predict.

The continued credit crisis and related turmoil in the global financial system, as well as the global economic recession, may have an impact on our business and our financial condition, and we may face challenges if conditions in the financial markets do not improve. The current economic situation could have a material adverse impact on our customers causing them to fail to meet their obligations to us.

As shares of our common stock are classified as penny stock, investors may have difficulty selling their shares.

Our common stock is subject to penny stock rules as defined in 1934 Securities and Exchange Act rule 3151-1. The Securities and Exchange Commission has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Our common shares are subject to these penny stock rules. Transaction costs associated with purchases and sales of penny stocks are likely to be higher than those for other securities. Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system).

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer s confirmation.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the common shares in the United States and shareholders may find it more difficult to sell their shares.

ITEM 2. DESCRIPTION OF PROPERTY.

Our head office is located in leased premises at Suite 800, 570 Granville Street, Vancouver, British Columbia, Canada V6C 3P1. Our principal business operations are carried out from head office. Our leased premises consist of approximately 10,100 square feet. We pay rent of approximately $28,000 Canadian (equal to approximately $25,600 US) per month. The lease expires August 30, 2010. We consider our leased premises adequate for our current business purposes.

The Company owns proprietary algorithms, source code, web domain addresses, patents, trademarks and other intellectual property.

We have one granted patent and one outstanding patent application for the MPE® distribution system covering our innovative security features. The United States Patent & Trademark Office has granted the first patent, entitled 'Digital Media Distribution Method and System' patent application (USPTO Publication No. 20020146122, International WIPO 01/65796). The second patent titled *Methods for Watermarking Media Data* (US 20080098022) was published in April 2008 and is pending review by the USPTO.

We have been granted a trademark for Clipstream® in the US, Canada, Japan, Israel and Europe in connection with our software products. We have been granted trademarks for MPE® in the US, Canada and Europe. We have been granted trademarks for PLAY MPE® in the US and Japan. We have also been granted trademarks for Sonox Digital in Japan.

We have applied for trademark protection for MPE® in China and Japan. We have applied for trademark protection for PLAY MPE® in the Canada, China and Europe and SONOX DIGITAL™ in the US, Canada, China, and Europe. This protection is currently pending.

We generally develop our own technologies and algorithms in house and have a number of technologies that we rely on to maintain our competitive advantage. Additionally we have in excess of 40 registered domain names.

ITEM 3. LEGAL PROCEEDINGS.

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

a) On March 7, 2006, the Company filed a statement of claim in the Federal Court of Canada against Yangaroo (the Defendant) to assert that the Company s technology does not infringe on the stated patent owned by the

Defendant and to further declare that Defendant s patent is invalid. On June 7, 2006, the Company s counsel received a statement of defense and counterclaim from the Defendant, requesting specified damages or audited profits from the Play MPE® system sourced to Canada.

b) On May 3, 2007, the Company filed a claim in Ontario Superior Court against the Defendant (Yangaroo Inc.), and executives of the Defendant, Chief Executive Officer of the Defendant and Chief Financial Officer of the Defendant (collectively the Defendants) in the amount of $25,000,000 caused by the Defendants making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act of Canada, and unlawful interference with the Company s economic relations. On June 7, 2007, the Defendant filed a statement of defense and counterclaim against the Company for the same amount and for the same causes.

c) On May 12, 2009, the Company was served with a complaint in the United States District Court for the Eastern District of Wisconsin by the Defendant (the Claimant) in the Canadian litigation above, alleging that the Company infringes on its recently issued one method claim in United States Patent No. 7,529,712. The Company initially filed a motion to dismiss the complaint as not being properly pled due to a issue regarding the method claim itself. The Court has ruled that it would be premature to issue a dismissal on such grounds until it had considered the meaning of the patent claim terms. On September 18, 2009 the Company filed an Answer, which included a statement of its defenses. One defense the Company has asserted is the patent claim has limitations regarding operations on a server and because Company s servers are outside the United States, the Claimant s U.S. patent cannot be asserted against the Company. On October 13, 2009 the U.S. District Court issued a scheduling order that limits discovery in the U.S. case to the Company s defense of extraterritoriality and that the Court will entertain a motion for summary judgment by the Company dismissing the case on that basis alone, prior to further discovery, if any. It is management s opinion that the Claimant was sufficiently aware of the location of Company s servers well prior to the date it brought suit and, given Claimant s duty to investigate the law regarding extraterritoriality prior to bringing suit, this case is improper. As a result, the Company will be seeking legal costs from the Claimant, if successful.

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

On August 12, 2009 the Company received a statement of claim in the Supreme Court of British Columbia from a former employee for wrongful dismissal and breach of contract. The claim was for approximately $180,000 CDN plus an award of stock options and unspecified damages. The Company believes the claim is completely without merit and will vigorously defend its position and reputation and filed a response on September 11, 2009. The former employee s deadline to respond to our response was October 2, 2009. As of November 29, 2009, the Company has not received a response from the former employee. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to our security holders for a vote during the fourth quarter of our fiscal year ending August 31, 2009.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCK HOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our shares are currently trading on the OTC Bulletin Board under the stock symbol DSNY. The first day on which the Company s shares were traded under the stock symbol DSNY was June 26, 2000. The high and the low trading prices for our shares for each quarter of the last two fiscal years were:

QUARTER	HIGH ($)	LOW ($)
1st Quarter 2008	$0.63	$0.40
2nd Quarter 2008	$0.81	$0.45
3rd Quarter 2008	$0.70	$0.47
4th Quarter 2008	$0.62	$0.35
1st Quarter 2009	$0.43	$0.15
2nd Quarter 2009	$0.39	$0.15
3rd Quarter 2009	$0.30	$0.17
4th Quarter 2009	$0.35	$0.19

The trades reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Holders of Common Stock

As of November 26, 2009 we had 52,059,647 shares of our common stock outstanding and there were 73 registered shareholders of our common stock.

Dividends

We have neither declared nor paid any cash dividends on our capital stock and do not anticipate paying cash dividends in the foreseeable future. Our current policy is to retain any earnings in order to finance the expansion of our operations. Our Board of Directors will determine future declaration and payment of dividends, if any, in light of the then-current conditions they deem relevant and in accordance with applicable corporate law.

Recent Sales of Unregistered Securities

During the year ended August 31, 2009, 500,000 stock options were exercised for cash proceeds of $100,000. 133,333 previously issued common shares were released from treasury to settle an incomplete private placement between the Company and parties involved in the August 2000 private placement.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our shares of common stock or other securities during the year ended August 31, 2009.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS.

The following discussion of our results of operations and financial condition should be read together with the consolidated financial statements and related notes that are included later in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors.

RESULTS OF OPERATIONS FOR THE YEAR ENDED AUGUST 31, 2009

Revenue

Revenue continued to grow during our fourth quarter and was the highest in the Company s history. Fourth quarter revenue was 77% higher than the same quarter in the prior year and more than 31% above the previous quarter in fiscal 2009. Total revenue for the quarter is $872,569 (third quarter fiscal 2009 - $665,829). Total revenue for the year was $2,560,447 (2008 - $1,578,888), an increase of approximately 62% over the fiscal 2008 year.

The growth in revenue is driven by the growth in our Play MPE® system, where access fees for the year have grown by more than 95% over the previous year. Play MPE® continues to see the same substantial revenue growth that it has seen over the previous three years.

	2009	2008	2007
Play MPE® Revenue	$2,256,871	$1,154,845	$446,594
Growth over prior year	95%	159%	138%

The increases in revenue from Play MPE® have continued since we ceased pilot usage of the Play MPE® system at the beginning of the 2007 fiscal year. Play MPE® is the world leader which dominates an evolving business and leads the transformation of the way in which record labels distribute pre-release music. The music industry has begun to use Play MPE® in some markets as the primary distribution method. We have seen the transition from traditional distribution methods to Play MPE® begin gradually and the growth seen in 2008 has continued into 2009. The growth in revenue over the previous year has been realized across formats, through existing clients, and through new clients in new geographic areas and includes; a 48% increase in North American Major Record Label revenue, and a 62% increase in North American independent record label revenue. The addition of European and Australasian based revenue added a further increase of $540,145 (24% of total 2009 MPE® revenue).

Over the course of fiscal 2009, we added Warner Music Group and Universal Music Group International to our major label agreements that already included EMI and Universal Music Group (North America). Also during the year, we expanded into Australia with commercial agreements with Warner Australia, Universal Music Group (Australia) and EMI (Australia) as well as many additional independent clients in Australia. We have several agreements with subsidiaries of Sony BMG and several additional labels operate on a pay-as-you-go basis. We began to see Play MPE® expand to include numerous European countries. While some use has been seen Asia, South America and Africa this use has had little impact to revenue to date as these revenues are typically recorded through the European parent label which is billed for that usage. We expect Play MPE® service fees to continue to grow throughout all geographic regions in 2010.

While this market development is still at an early stage, the value propositions of the Play MPE® system are both compelling and numerous and we have found we compete well against existing or traditional methods of dissemination as well as alternatives in the market. Our product provides significant advantages such as reducing the costs and lead times, and providing feedback on usage to the record labels. Further, the added benefit of being environmentally friendly appeals to all considered. We compete favorably against the distribution of MP3 s by the superior sound quality of files in our system, the security, the reporting (feedback) and the network of recipients using our system. Play MPE® provides many significant advantages over competing solutions such superior sound quality, superior security, constructive business relationships, more advantageous partner relationships, a network of regular users and countless added functions of the player software and total service offering.

Our revenue model is based on a price per send . In October 2009, we reached new milestones having delivered more than 160,000 individual songs in more than 150 million transactions with over 32,000 users. We refer to a transaction as one song which is made available to one recipient. For revenue purposes, fees are based on sends as defined in standard agreements, and could include a single transaction or group of transactions. 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.

For customers where it is not appropriate to enter into a formal contract we provide access to the Play MPE® system through www.myplaympe.com.

Real time usage statistics for Play MPE® are available at: http://www.plaympe.com/v4/company/plaympestats.php

The MPE® security engine also powers our online music store software suite (www.podds.ca) which provides for the remainder of MPE® revenue.

Approximately 11% of our revenues are derived from sales of our Clipstream® software which declined from the previous year by 5%. This reflects a management strategy of focusing sales, marketing and support resources on MPE® until the new automated system for Clipstream® is available. We hope to increase sales of Clipstream® licenses through our hosted solution, and other license opportunities.

Radio Destiny sales represent 1% of our total revenue.

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. Some fluctuation is seen due to the fluctuation in exchange rates during the course of the year. As our operations are primarily conducted in Canada, the majority of our costs are incurred in Canadian dollars while the majority of our revenue is in Euros and US dollars. Thus, 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 year, the Company was able to expand into Europe and Australia, and increase revenue in the US, within current spending levels.

For the year of 2009, our total operating expenses have decreased by 37% to $2,515,666 from $3,983,821 and have remained steady throughout the year.

Rent expense of $278,316 is offset by our sub-lease rental income of $95,788 which is included in Other income in the Statement of Operations.

General and administrative	**31-Aug 2009**	**31-Aug 2008**	**$ Change**	**% Change**
Wages and benefits	366,920	408,902	(41,982)	-10.3%
Rent	71,139	59,893	11,246	18.8%
Telecommunications	23,468	19,674	3,794	19.3%
Bad debt	16,474	54,094	(37,620)	-69.5%
Office and miscellaneous	77,020	193,662	(116,642)	-60.2%
Professional fees	205,024	312,468	(107,444)	-34.4%
	760,045	1,048,693	(288,648)	-27.5%

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

The decrease in professional fees is due to a reduction of volume of legal work associated with litigation, and patents and trademark applications. Office and miscellaneous costs have decreased due to the reduction in fees associated with corporate awareness and communications.

Sales and marketing	**31-Aug 2009**	**31-Aug 2008**	**$ Change**	**% Change**
Wages and benefits	379,529	639,408	(259,879)	-40.6%
Rent	71,139	89,575	(18,436)	-20.6%
Telecommunications	23,468	29,424	(5,956)	-20.2%
Meals and entertainment	828	19,590	(18,762)	-95.8%
Travel	49,451	84,805	(35,354)	-41.7%
Advertising and marketing	297,510	635,220	(337,710)	-53.2%

	821,925	1,498,022	(676,038)	-45.1%

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 prior year ended August 31, 2008, we had significantly expanded our marketing and advertising efforts for Play MPE® in its initial commercial push in the United States and the reduction seen in fiscal 2009 reflected the reduced requirements for market awareness. During the year ended August 31, 2009, 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 need for higher cost marketing efforts has decreased. 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-Aug 2009**	**31-Aug 2008**	**$ Change**	**% Change**
Wages and benefits	701,655	1,165,463	(463,808)	-39.8%
Rent	136,038	170,708	(34,670)	-20.3%
Telecommunications	44,878	56,074	(11,196)	-20.0%
Repairs and maintenance	11,144	-	11,144	-
	893,715	1,392,245	(498,530)	-35.8%

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

Amortization

Amortization expense arose from fixed assets and other assets. Amortization decreased to $39,981 for the fiscal year ended August 31, 2009 from $44,861 for the fiscal year ended August 31, 2008, a decrease of $4,880 or 10.88% .

Other earnings and expenses

Other income decreased to $102,351 for the year ended August 31, 2009 from $111,741 for the year ended August 31, 2008, a decrease of $9,390.

Interest income decreased to $3,107 for the year ended August 31, 2009 from $24,959 for the year ended August 31, 2008, a decrease of $21,852. Interest expense decreased to $4,692 for the year ended August 31, 2009 from $24,945 for the year ended August 31, 2008, a decrease of $20,253. Additionally we realized a gain on settlement of debt of $15,008 for the year ended August 31, 2009(nil - August 31, 2008).

Income

We have realized a net income of $610,831 for the year (2008 loss of $2,293,178). Included in net income for the year is a future income tax recovery amount of $450,000 representing tax deductions such as operating losses that are available to offset future taxable income. The amount recognized is the tax effected amount (the gross deductions for tax multiplied by the relevant tax rate) expected to be realized during fiscal 2010.

Income before provision for income taxes is $160,831 for year. The profit realized during the year is the result steady improvements of the Company s income and earnings before interest taxes depreciation and amortization (EBITDA).

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $253,100 as at August 31, 2009 compared to cash of $91,369 as at August 31, 2008. We had a working capital surplus of $658,673 as at August 31, 2009 compared to a working capital deficiency of $192,772 as at

August 31, 2008.

Cash Flows

Net cash generated in operating activities was $74,257 for the year ended August 31, 2009, compared to $1,707,169 used for the year ended August 31, 2008. The increase is mainly due to an increase in total revenue of approximately $1,000,000 and a reduction of costs associated with our initial marketing push and associated support for the Play MPE® service.

The cash used in investing activities was $39,997 for the year ended August 31, 2009, compared to $43,566 for the year ended August 31, 2008.

Net cash provided by financing activities was $117,894 for the year ended August 31, 2009 compared to $568,048 for the year ended August 31, 2008.

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

MATERIAL OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING POLICIES

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

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

- The consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. If we were not to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. There can be no assurances that we will be successful in generating additional cash from equity or other sources to be used for operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.
- We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, collection is reasonably assured, and there are no substantive performance obligations remaining. Our revenue recognition policies are in conformity with AICPA s Statement of Position No. 97-2, Software Revenue Recognition , as amended (SOP 97-2). We generate revenue from software arrangements involving multiple element sales arrangements. Revenue is allocated to each element of the arrangement based on the relative fair value of the elements and is recognized as each element is delivered and we have no significant remaining performance obligations. If evidence of fair value for each element does not exist, all revenue from the arrangement is recognized over the term of the arrangement. Changes in our business priorities or model in the future could materially impact our reported revenue and cash flow. Although such changes are not currently contemplated, they could be required in response to industry or customer developments.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

In May 2009, FASB issued SFAS No. 165, Subsequent Events . SFAS 165 establishes general standards of for the evaluation, recognition and disclosure of events and transactions that occur after the balance sheet date. Although there is new terminology, the standard is based on the same principles as those that currently exist in the auditing standards. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material effect on the Company s consolidated financial statements.

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

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment to FASB Statement No. 133 . SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. Our company would adopt it at the fiscal year beginning September, 1 2009. The adoption of this statement is not expected to have a material effect on the Company s consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, which for our company, would be the fiscal year beginning September 1, 2009. Our company is currently assessing the impact of FSP FAS 142-3 on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations . This statement replaces SFAS 141 and defines the acquirer in a business combination as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141R also requires the acquirer to recognize contingent consideration at the acquisition date, measured at its fair value at that date. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and earlier adoption is prohibited. Our company would adopt it at the fiscal year beginning September 1, 2009. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

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

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

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

ITEM 7. FINANCIAL STATEMENTS.

Index to Audited Consolidated Financial Statements for the Year Ended August 31, 2009:

1. Report of Independent Registered Public Accounting Firm;

2. Consolidated Balance Sheets as at August 31, 2009 and 2008;

3. Consolidated Statement of Operations for the Years Ended August 31, 2009 and 2008;

4. Consolidated Statement of Changes in Stockholders' Equity (Deficiency) for the Years Ended August 31, 2009 and 2008;

5. Consolidated Statement of Cash Flows for the Years Ended August 31, 2009 and 2008;

6. Notes to Consolidated Financial Statements.

Consolidated Financial Statements

Destiny Media Technologies Inc.

August 31, 2009 and 2008
(Expressed in United States dollars)

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Destiny Media Technologies Inc.

We have audited the accompanying consolidated balance sheets of **Destiny Media Technologies Inc.** as of August 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Destiny Media Technologies Inc. at August 31, 2008 and 2007 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Company's recurring net losses from operations and stockholders' deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The 2008 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada,
November 26, 2008.

Chartered Accountants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Destiny Media Technologies Inc.

We have audited the accompanying consolidated balance sheet of Destiny Media Technologies Inc. as of August 31, 2009 and the related consolidated statement of operations, cash flows and stockholders equity for the year ended August 31, 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the stand