

DESTINY MEDIA TECHNOLOGIES INC  
Form 10QSB  
April 16, 2007

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

**FORM 10-QSB**

(Mark One)

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

For the six months ended February 28, 2007

**OR**

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

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

Commission file number: 0-028259

**DESTINY MEDIA TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

**COLORADO**

(State or other jurisdiction of  
incorporation or organization)

**84-1516745**

(IRS Employer Identification No.)

**1055 West Hastings Street, Suite 1040, Vancouver,  
British Columbia Canada V6E 2E9**

(Address of Principal Executive Offices)

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

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

Yes  No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
**47,824,001 Shares of \$0.001 par value common stock outstanding as of February 28, 2007.**

Transitional small business disclosure format (check one):

Yes  No

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**PART I - FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS.**

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Interim Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Six months ended February 28, 2007

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## Destiny Media Technologies Inc.

**CONSOLIDATED BALANCE SHEETS**

(Expressed in United States dollars)  
 [See Note 3 - Going Concern Uncertainty]  
 Unaudited

As at

|   | February 28,<br>2007<br>\$ | August 31,<br>2006<br>\$ |
|---|----------------------------|--------------------------|
| <b>ASSETS</b>   |                            |                          |
| <b>Current</b>  |                            |                          |
| Cash  | 2,028,893                  | 156,337                  |
| Accounts and other receivables, net of allowance for<br>doubtful accounts of \$1,045 [August 31, 2006 - \$8,615] [note 8] | 85,464                     | 130,537                  |
| Inventory   | 584                        | 1,059                    |
| Prepaid expenses  | 15,198                     | 9,022                    |
| <b>Total current assets</b>   | <b>2,130,139</b>           | <b>296,955</b>           |
| Software development costs, net of accumulated<br>amortization of \$77,856 [August 31, 2006 - \$61,859]                   | 14,932                     | 30,929                   |
| Property and equipment, net of accumulated<br>amortization of \$257,079 [August 31, 2006 - \$256,958]                     | 58,204                     | 60,973                   |
| <b>Total assets</b>   | <b>2,203,275</b>           | <b>388,857</b>           |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIENCY</b>  |                            |                          |
| <b>Current</b>  |                            |                          |
| Accounts payable [note 7(b)]  | 306,538                    | 180,308                  |
| Accrued liabilities   | 85,242                     | 148,465                  |
| Shareholder loans payable [note 4]  |                            | 17,142                   |
| Deferred revenue  | 5,053                      | 10,469                   |
| <b>Total current liabilities</b>  | <b>396,833</b>             | <b>356,384</b>           |
| Deferred leasehold inducements, net of accumulated<br>amortization of \$64,528 [August 31, 2006 - \$46,730]               | 16,170                     | 33,968                   |
| Obligation for share settlement [note 5]  | 100,000                    | 100,000                  |
| <b>Total liabilities</b>  | <b>513,003</b>             | <b>490,352</b>           |
| Commitments and contingencies [note 7]  |                            |                          |
| <b>Stockholders deficiency [note 6]</b>   |                            |                          |
| Common stock, par value \$0.001   |                            |                          |
| Authorized: 100,000,000 shares  |                            |                          |
| Issued and outstanding: 47,824,001 shares<br>[August 31, 2006 41,936,223 shares]  | 47,826                     | 41,938                   |
| Issued and held for settlement: 133,333 shares  |                            |                          |
| Additional paid-capital   | 7,716,603                  | 5,089,760                |
| Deficit   | (5,946,364)                | (5,121,293)              |
| Accumulated other comprehensive loss  | (127,793)                  | (111,900)                |
| <b>Total stockholders equity</b>  | <b>1,690,272</b>           | <b>(101,495)</b>         |
| <b>Total liabilities and stockholders equity</b>  | <b>2,203,275</b>           | <b>388,857</b>           |
| <i>See accompanying notes</i>   |                            |                          |



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENT OF OPERATIONS**

(Expressed in United States dollars)

Unaudited

|  | <b>Three Months<br/>Ended<br/>February 28,<br/>2007</b> | <b>Three Months<br/>Ended<br/>February 28,<br/>2006</b> | <b>Six Months<br/>Ended<br/>February 28,<br/>2007</b> | <b>Six Months<br/>Ended<br/>February 28,<br/>2006</b> |
|--|---|---|---|---|
|  | \$  | \$  | \$  | \$  |
| <b>Revenue</b> <i>[note 8]</i>                                       | <b>172,417</b>  | 224,745   | <b>339,998</b>  | 406,771   |
| <b>Operating expenses</b> <i>[note 6(b)]</i>                         |   |   |   |   |
| General and administrative   | <b>154,477</b>  | 157,004   | <b>265,679</b>  | 262,645   |
| Sales and marketing  | <b>274,281</b>  | 115,292   | <b>517,899</b>  | 197,494   |
| Research and development   | <b>234,585</b>  | 104,521   | <b>347,202</b>  | 194,033   |
| Amortization   | <b>13,765</b>   | 12,937  | <b>27,061</b>   | 25,672  |
|  | <b>677,108</b>  | 389,754   | <b>1,157,841</b>                                      | 679,844   |
| Loss from operations   | <b>(504,691)</b>  | (165,009)   | <b>(817,843)</b>                                      | (273,073)   |
| <b>Other earnings (expenses)</b>                                     |   |   |   |   |
| Interest and other expense   | <b>(3,850)</b>  | (5,953)   | <b>(7,228)</b>  | (13,015)  |
| <b>Net loss</b>  | <b>(508,541)</b>  | (170,962)   | <b>(825,071)</b>                                      | (286,088)   |
| <b>Net loss per common share, basic and diluted</b>                  | <b>(0.01)</b>   | (0.01)  | <b>(0.01)</b>   | (0.01)  |
| <b>Weighted average common shares outstanding, basic and diluted</b> | <b>42,287,793</b>                                       | 37,769,226  | <b>42,114,922</b>                                     | 37,207,803  |

*See accompanying notes*

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENT OF STOCK HOLDERS EQUITY**

(Expressed in United States dollars)

Unaudited

|  | Common stock |        | Additional |             | Accumulated   | Total        |
|--|--------------|--------|------------|-------------|---------------|--------------|
|  | Shares       | Amount | Paid-in    | Deficit     | Other         | Stockholders |
|  | #            | \$     | Capital    | \$          | Comprehensive | Equity       |
|  |              |        | \$         |             | Loss          | \$           |
|  |              |        |            |             | \$            |              |
| <b>Balance, August 31, 2006</b>          | 41,936,223   | 41,938 | 5,089,760  | (5,121,293) | (111,900)     | (101,495)    |
| Net loss                                 |              |        |            | (825,071)   |               | (825,071)    |
| Foreign currency translation gain        |              |        |            |             | (15,893)      | (15,893)     |
| Comprehensive loss                       |              |        |            |             |               | (840,964)    |
| Common stock issued on options exercised | 467,778      | 468    | 147,032    |             |               | 147,500      |
| Common stock issued                      | 5,420,000    | 5,420  | 1,978,529  |             |               | 1,983,949    |
| Stock based compensation                 |              |        | 501,282    |             |               | 501,282      |
| <b>Balance, February 28, 2007</b>        | 47,824,001   | 47,826 | 7,716,603  | (5,946,364) | (127,793)     | 1,690,272    |

*See accompanying notes*



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

|  | <b>Six Months<br/>Ended<br/>February 28,<br/>2007</b> | <b>Six Months<br/>Ended<br/>February 28,<br/>2006</b> |
|--|---|---|
|  | \$  | \$  |
| <b>OPERATING ACTIVITIES</b>                      |   |   |
| Net loss   | (825,071)   | (286,088)   |
| Items not involving cash:                        |   |   |
| Amortization                                     | 27,061  | 25,672  |
| Amortization of deferred lease benefit           | (16,466)  | (13,850)  |
| Stock-based compensation                         | 501,282   | 29,268  |
| Common stock issued for services rendered        |   | 24,000  |
| Changes in non-cash working capital:             |   |   |
| Accounts and other receivables                   | 39,642  | (33,522)  |
| Inventory  | 433   | 657   |
| Prepaid expenses                                 | (6,674)   | (4,780)   |
| Accounts payable and accrued liabilities         | (88,382)  | (46,412)  |
| Deferred revenue                                 | (5,005)   | (29,514)  |
| <b>Net cash used in operating activities</b>     | <b>(373,180)</b>                                      | <b>(334,569)</b>                                      |
| <b>INVESTING ACTIVITIES</b>                      |   |   |
| Purchase of equipment                            | (11,989)  |   |
| <b>Net cash used in investing activities</b>     | <b>(11,989)</b>                                       |   |
| <b>FINANCING ACTIVITIES</b>                      |   |   |
| Proceeds from issuance of common stock           | 2,150,000   | 300,000   |
| Proceeds from exercise of stock options          | 147,500   | 136,900   |
| Deposits on shares issuable                      |   | 68,150  |
| Repayments of shareholder loans                  | (16,577)  | (54,236)  |
| <b>Net cash provided by financing activities</b> | <b>2,280,923</b>                                      | <b>450,814</b>  |
| Effect of foreign exchange rate changes on cash  | (23,198)  | 25,399  |
| <b>Net increase in cash</b>                      | <b>1,872,556</b>                                      | <b>141,644</b>  |
| Cash, beginning of period                        | 156,337   | 30,576  |
| <b>Cash, end of period</b>                       | <b>2,028,893</b>                                      | <b>172,220</b>  |
| <b>Supplementary disclosure</b>                  |   |   |
| Cash paid for interest                           | 7,228   | 13,015  |
| Shareholder loans extinguished with common stock |   | 270,000   |
| <i>See accompanying notes</i>                    |   |   |



**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**  
(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

**1. ORGANIZATION**

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

**2. BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended February 28, 2007 are not necessarily indicative of the results that may be expected for the year ended August 31, 2007.

The balance sheet at August 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by 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-KSB for the year ended August 31, 2006.

**3. GOING CONCERN UNCERTAINTY**

The interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

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

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

**3. GOING CONCERN UNCERTAINTY (cont d.)**

During the most recently completed quarter, the Company was successful in raising over \$2 million in net cash proceeds in an equity private placement. Additionally, the Company is aggressively implementing its business plan of transitioning new and existing customers ( record labels ) to transactional based contracts through the full commercial deployment of its Play MPE system. Until the end of the current quarter, the Company had been receiving a nominal fixed access fee to utilize the Play MPE system. In most cases, the major record labels were sending songs to trusted recipients through our digital system in addition to physical delivery of a CD. Usage has grown such that the various record labels are able to send the song digitally only and, subsequent to the current period, the Company has begun to charge for the service on a transaction fee basis. The Company is pursuing similar transaction fee based agreements with other large record labels and developing an Indie Uploader system for smaller labels. Through the end of the current quarter, the Company continued to utilize cash in operations (\$373,180 for the six months ending February 28, 2007). However, management expects revenues, and cashflows, to increase significantly during the second half of the year. Management believes that current cash resources will be sufficient through fiscal 2008 irrespective of significant revenue growth associated with the Play MPE system.

There are no assurances that the Company will be successful in achieving these goals. In view of these conditions, the ability of the Company to continue as a going concern is not certain. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

**4. SHAREHOLDER LOANS PAYABLE**

| <b>February 28,<br/>2007</b> | <b>August 31,<br/>2006</b> |
|------------------------------|----------------------------|
| \$                           | \$                         |

Loans payable, due to shareholders, unsecured,  
due on demand, non-interest bearing

17,142

On September 5, 2006, the \$17,142 non-interest bearing shareholder loan was repaid.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

**5. OBLIGATION FOR SHARE SETTLEMENT**

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

**6. SHARE CAPITAL**

**[a] Issued and Authorized**

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

During the six months ended February 28, 2007, the Company completed a private placement which consisted of the issuance of 5,400,000 units at \$0.40 for net cash proceeds of \$2,150,000. Each unit consists of one common share and one warrant exercisable into one common share at \$0.50 expiring February 28, 2012. In connection with the private placement, the Company incurred \$176,051 of financing and share issue costs (of which \$166,051 is included in accounts payable at the end of the quarter) and issued as compensation an additional 20,000 common shares, 361,000 warrants exercisable into common shares at \$0.40 expiring February 28, 2012, and 400,000 warrants exercisable into common shares at \$0.50 expiring February 28, 2012.

Also, 467,778 stock options were exercised during the six months ended February 28, 2007 for cash proceeds of \$147,500.

**[b] Stock option plans**

The Company had previously reserved a total of 8,850,000 common shares for issuance under its existing stock option plans, of which, 1,155,597 remain available for future option issuance. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

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

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

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

A summary of option activity under the Plans as of February 28, 2007, and changes during the six-month period ended is presented below:

| <b>Options</b>                   | <b>Shares</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Average<br/>Intrinsic Value<br/>\$</b> |
|----------------------------------|---------------|--|--|---|
| Outstanding at August 31, 2006   | 2,129,000     | 0.39   |  |   |
| Granted                          | 2,642,778     | 0.46   |  |   |
| Exercised                        | (467,778)     | (0.32)   |  |   |
| Outstanding at February 28, 2007 | 4,304,000     | 0.43   | 3.97   | 638,100                                   |
| Vested or expected to vest at    |               |  |  |   |
| February 28, 2007                | 4,304,000     | 0.43   | 3.97   | 638,100                                   |
| Exercisable at February 28, 2007 | 3,689,417     | 0.42   | 3.82   | 582,307                                   |

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at February 28, 2007.

*Impact of Adoption of FAS 123(R)*

At February 28, 2007, the Company has two stock-based employee compensation plans. Prior to September 1, 2006, the Company accounted for the plan under the recognition and measurement provisions of APB Opinion No.25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No 123, *Accounting for Stock-Based Compensation*. No stock-based employee compensation cost was recognized in the Consolidated Statements of Operations for the six month period ended February 28, 2006, as all options granted under the plan had an exercise price equal to, or greater than, the market value of the underlying common stock on the date of grant. Effective September 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the six-month period ended February 28, 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of September 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payment granted, modified or cancelled, subsequent to September 1, 2006. Results for prior periods have not been restated.

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

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

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

As FAS123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation expense for the six-month period ended February 28, 2007 has considerations for estimated forfeitures. When estimating forfeitures, the Company considers voluntary termination behavior as well as trends of actual option forfeitures.

As a result of adopting Statement 123(R) on September 1, 2006, the Company's net loss for the six-month period ended February 28, 2007, is \$246,051 lower than if it had continued to account for stock-based compensation under Opinion 25.

Total stock-based compensation for the six-month period ended February 28, 2007 includes stock-based compensation expense related to employees of \$246,051 and stock-based-compensation expense related to consultants of \$255,231 reported in the statement of operations as follows:

|                                | Three Months Ended<br>February 28, |            | Six Months Ended<br>February 28 |            |
|--------------------------------|------------------------------------|------------|---------------------------------|------------|
|                                | 2007<br>\$                         | 2006<br>\$ | 2007<br>\$                      | 2006<br>\$ |
| Stock-based compensation:      |                                    |            |                                 |            |
| General and administrative     | <b>72,621</b>                      | 9,335      | <b>77,194</b>                   | 11,751     |
| Sales and marketing            | <b>164,209</b>                     | 6,956      | <b>292,570</b>                  | 8,836      |
| Research and development       | <b>126,887</b>                     | 6,634      | <b>131,518</b>                  | 8,681      |
| Total stock-based compensation | <b>363,717</b>                     | 22,925     | <b>501,282</b>                  | 29,268     |

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

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

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

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

|   | <b>Three Months Ended<br/>February 28,</b> |             | <b>Six Months Ended<br/>February 28</b> |             |
|---|--|-------------|---|-------------|
|   | <b>2007</b>                                | <b>2006</b> | <b>2007</b>                             | <b>2006</b> |
| Expected term of stock options<br>(years) | 2.5-5.0                                    | 2.42        | 2.5-5.0                                 | 2.42        |
| Expected volatility                       | 85%-94%                                    | 97%         | 85%-94%                                 | 97%         |
| Risk-free interest rate                   | 4.4%-5.0%                                  | 5.5%        | 3.9%-5.0%                               | 5.5%        |
| Dividend yields                           |  |             |   |             |

The weighted-average grant-date fair value of options granted during the six-month period ended February 28, 2007 and 2006 was \$0.19 and \$0.11, respectively.

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.



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

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

**6. SHARE CAPITAL (cont d.)***Pro forma Information for Periods Prior to the Adoption of FAS 123(R)*

Prior to the adoption of FAS No. 123(R), the Company provided the disclosures required under FAS No. 123, as amended by FAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosures. Employee stock-based compensation expense recognized under FAS 123(R) was not reflected in the results of operations for the three and six months period ended February 28, 2006 for employee stock option awards as all options were granted with an exercise price equal to, or greater than, the market value of the underlying common stock on the date of grant. Previously reported amounts have not been restated. The pro forma information for the three and six months February 28, 2006 is as follows:

|  | <b>Three Months Ended<br/>February 28, 2006</b> | <b>Six Months Ended<br/>February 28, 2006</b> |
|--|---|---|
|  | \$  | \$  |
| Net loss as reported   | (170,962)                                       | (268,088)                                     |
| Add: Stock-based employee compensation<br>expense included in reported net loss                                    |   |   |
| Deduct: Total stock-based employee compensation expense<br>determined under fair value based method for all awards | (5,628)   | (11,256)                                      |
| Pro forma net loss   | (176,590)                                       | (279,344)                                     |
| Loss per share   |   |   |
| Basic and diluted as reported  | (0.01)  | (0.01)  |
| Basic and diluted pro forma  | (0.01)  | (0.01)  |

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

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

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

As at February 28, 2007, the Company has the following common stock warrants outstanding:

|                 | <b>Number of Common<br/>Shares Issuable</b> | <b>Exercise Price<br/>\$</b> | <b>Date of Expiry</b> |
|-----------------|---|------------------------------|-----------------------|
| \$0.22 Warrants | 950,000                                     | 0.22                         | August 25, 2011       |
| \$0.25 Warrants | 1,500,000                                   | 0.25                         | August 20, 2007       |
| \$0.25 Warrants | 250,000                                     | 0.25                         | August 28, 2007       |
| \$0.30 Warrants | 250,000                                     | 0.30                         | February 28, 2008     |
| \$0.40 Warrants | 361,000                                     | 0.40                         | February 28, 2012     |
| \$0.50 Warrants | 5,800,000                                   | 0.50                         | February 28, 2012     |
|                 | 9,111,000                                   |                              |                       |

The \$0.25 and \$0.30 share purchase warrants have a forced conversion feature by which the Company can demand exercise of the share purchase warrants if the common stock trades at a price equal to or greater than \$0.50 for a period of 30 consecutive days. 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 stock trades at a price equal to or greater than \$1.25 if certain conditions are met.

The \$0.40 and \$0.50 share purchase warrants were issued in connection with the private placement transaction described in Note 6[a].

On March 27, 2007, subsequent to the end of the current quarter and therefore not included in the cash balance, all 1,750,000 \$0.25 warrants were exercised for gross proceeds of \$437,500.

On September 11, 2006, the Company entered into an agreement with Bryant Park Capital to act as an exclusive financial advisor to provide strategic assistance and maximize shareholder value. As part of the agreement, the Company has issued 950,000 warrants with a strike price of \$0.22. In addition, the Company is obligated to issue, if the agreement is not cancelled by the Company, at its sole discretion, a monthly consulting fee of \$7,500 or 75,000 warrants with a strike price of \$0.22 for each month beginning March 1, 2007 and ending August 1, 2007. This agreement has been expanded to include additional services and obligations as outlined in Note 10[c].

The fair value of 950,000 warrants, which vested during the six months ending February 28, 2007, was measured using the Black-Scholes option-pricing model and amounted to \$179,285. This amount was expensed to sales and marketing in the statement of operations.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

**7. COMMITMENTS AND CONTINGENCIES**

[a] On July 25, 2005 the Company was issued a letter on behalf of Musicrypt Inc. ( Musicrypt ) indicating a possible infringement of a biometric security system patent in Canada. The Company has denied any patent infringement and believes the allegations are without merit. On March 7, 2006 the Company filed a statement of claim in the Federal Court of Canada against Musicrypt to assert that the Company's technology does not infringe on the stated patent owned by Musicrypt and to further declare that Musicrypt's patent is invalid. On June 7, 2006, the Company's counsel received a statement of defense and counterclaim from Musicrypt, requesting specified damages or audited Canadian profits from the Play MPE system if it is offered in Canada.

On December 19, 2006 the Company filed a consent motion with the Federal Court requesting a bifurcation of the issues included in the action. If granted, the issues of infringement and validity of the patent raised in the claim will be addressed prior to the issue of damages raised in the counterclaim.

The amount of damages awarded, if any, in relation to the counterclaim cannot be reasonably estimated. Management does not believe that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

[b] The total accounts payable of \$306,538 includes approximately \$53,956 of amounts the company has disputed. Management plans to resolve these disputed balances in the current year; however the outcome of these negotiations is not determinable. Also included in the accounts payable balance is \$144,400 due in respect of financing fees for the private placement described in Note 6 [a] above.

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

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

**8. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE**

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

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

|                      | <b>Three Months Ended<br/>February 28,</b> |             | <b>Six Months Ended<br/>February 28</b> |             |
|----------------------|--|-------------|---|-------------|
|                      | <b>2007</b>                                | <b>2006</b> | <b>2007</b>                             | <b>2006</b> |
|                      | \$   | \$          | \$                                      | \$          |
| United States        | <b>148,043</b>                             | 164,131     | <b>298,791</b>                          | 313,385     |
| Canada               | <b>22,317</b>                              | 30,339      | <b>27,006</b>                           | 50,361      |
| Other                | <b>2,057</b>                               | 30,275      | <b>14,201</b>                           | 43,025      |
| <b>Total revenue</b> | <b>172,417</b>                             | 224,745     | <b>339,998</b>                          | 406,771     |

During the six months ended February 28, 2007, one customer represented 23% of the total revenue balance [February 28, 2006 two customers represented 28% of the total revenue balance].

As at February 28, 2007, two customers represented 42% of the trade receivables balance [February 28, 2006 two customers represented 37%].

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)

Six months ended February 28, 2007

Unaudited

**9. RECENT ACCOUNTING PRONOUNCEMENTS**

***FASB Statement No. 48 Accounting for Uncertainty in Income Taxes***

In July 2006 the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48). FIN 48 creates a single model to address uncertainty in income tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and, clearly scopes income taxes out of FASB Statement No. 5, Accounting for Contingencies . FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, Accounting for Income Taxes . This includes tax positions considered to be routine as well as those with a high degree of uncertainty. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts recognized after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The cumulative effect adjustment would not apply to those items that would not have been recognized in earnings, such as the effect of adopting FIN 48 on tax positions related to business combinations. The Company will adopt FIN 48 effective September 1, 2007 and does not expect the adoption to have a material impact on the Company's financial statements.

***FASB Statement No. 157 Fair Value Measurement***

In September 2006, FASB issued SFAS 157 Fair Value Measurements . This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt SFAS 157 effective September 1, 2008 and does not expect the adoption to have a material impact on the Company's financial statements.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Six months ended February 28, 2007

Unaudited

**9. RECENT ACCOUNTING PRONOUNCEMENTS (cont d.)**

***SAB 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements***

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosure. SAB 108 will be effective for the fiscal year ending August 31, 2007. The Company adopted SAB 108 effective September 1, 2006 and the adoption does not have a material impact on the Company's financial statements.

**10. SUBSEQUENT EVENTS**

- [a] On March 1, 2007, the Company rebranded its Promo Only MPE music preview service as Play MPE and hired nine staff to market and support the system directly. Concurrently, the Company entered into the first full transactional fee based distribution contract with Universal Music Group.
- [b] On March 27, 2007, all 1,750,000 \$0.25 warrants, as outlined in Note 6(d) above, were exercised for proceeds of \$437,500. These funds are not included in the cash balance at February 28, 2007.
- [c] On April 10, 2007, the Company modified and expanded its agreement with Bryant Park Capital to include additional services not previously contemplated in the original agreement. As compensation, the company will pay Bryant Park Capital \$7,500 per month to the end of August 2007 and issue an additional 500,000 warrants exercisable into common shares at a price of \$0.70. The warrants vest monthly over the six months following the agreement.

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

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

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

## OVERVIEW

We develop and market digital software tools for providing media content on the internet.

There are two main ways that content is accessed by users:

1. Technologies such as television or radio allow users to experience the content as it is broadcast. The analogous technique on the internet is to stream the media to the users.
2. Consumers can own content which they can experience at any time. For example, they may buy a music CD or a DVD. The analogous process on the internet is to securely download the content from a remote site to a local hard drive.

The company has developed branded solutions to facilitate both streaming media and secure media distribution.

### 1. Streaming Media

#### A) Clipstream

The Clipstream suite of streaming media products are built around Sun Java, so they play instantly when a web page loads or an email opens. Clipstream reliably reaches more viewers on more operating systems than other solutions and it has a high level of security. Because it is compatible with standards based web servers and caching infrastructure, it is uniquely easy to deploy, it uses up to 90% less bandwidth than competing solutions and it plays more reliably.

Clipstream is available in on demand and live versions.

We launched a major upgrade of Clipstream (Clipstream 3) in February.

## **B) Radio Destiny**

Radio Destiny allows consumers to start their own internet based radio station from their PC. Content is automatically aggregated on our site: <http://www.stationdirectory.com>

We are developing a social network based around real time audio and video broadcasting which we expect to launch in spring 2007.

## **2. Secure Media Distribution**

### **A) Play MPE System**

In October 2004, we launched a complete solution for assisting record labels in securely moving content to trusted third parties, including radio stations on a pilot basis. As of February 2007, we have delivered over 34,000 songs, representing over 36 million transactions. We are transitioning various record labels from a low fixed monthly cost to full transactional fee based contracts. Effective March 1, 2007, we have agreed to a transactional fee based contract with Universal Music Group.

The system recognizes authorized computers and content is received in an encrypted secure form. If the content owner allows export, the system embeds a tracking signature or watermark into the music that identifies that user. The watermark survives compression and duplication to analog devices.

The system consists of servers at two hosting facilities, encoding tools, list management tools, a Mac and PC player application and custom database applications. To utilize the system the following steps occur:

- i) A record label initiates a send with the encoder tool of the MPE system,
- ii) Optional email alert can be sent to the recipient(s),
- iii) The song will become available on the recipient's desktop, and
- iv) The system automatically generates an invoice in accordance with the relevant agreement.

### **B) PODDS.CA**

We have developed our own iTunes style online store application and accompanying server and encoder software. Users can securely purchase digital music directly from a player application which they download to their computer. We expect to license this software to third parties that want to offer digital audio content for sale.

We have licensed catalogue music from all four major record labels that we are selling to commercial users and digital jukeboxes using our download service.

These technologies rely on proprietary algorithms, compression and watermarking technologies that were developed internally.

## **RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED FEBRUARY 28, 2007**

### **Revenue**

Our revenues decreased to \$339,998 for the six months ended February 28, 2007 from \$406,771 for the six months ended February 28, 2006, representing a decrease of \$66,773 or 16.4%. The decrease in revenue over the period is due to a decline of approximately 33% in our Clipstream suite of products. Clipstream 3 ([www.clipstream.com](http://www.clipstream.com)), which embraces several improvements over earlier versions, was launched late in the quarter on February 22, 2007, thus sales of Clipstream 3 did not significantly impact the current quarter.





The decline in revenue is offset by growth in our MPE associated revenue. MPE , which is marketed as Play MPE ([www.plaympe.com](http://www.plaympe.com)), and through our online distribution system ([www.podds.ca](http://www.podds.ca)), continues to increase.

We experienced a growth of 76% in MPE system access fees for the six month period ending February 28, 2007 over the same period in the prior year. Until the end of this quarter, system access fees were derived almost entirely from fixed monthly fee contracts, and thus, the growth in revenue to February 28, 2007 from Play MPE system access fees is derived from signing new labels to agreements and new sources of revenue associated with jukebox distribution. It is anticipated that the record label contracts will be revised or replaced with transactional fee based contracts over the coming months.

Effective March 1, 2007, we expanded our agreement with Universal Music Group to include fees based on sends . A send is a song, bundle of songs, album, box set, video or bundle of videos, sent to a particular recipient. At February 28, 2007, we have delivered over 34,000 songs in more than 36,000,000 transactions. We refer to a transaction as one song sent to one recipient. For revenue purposes, fees will be based on sends as defined in their respective agreements, and could include a single transaction or group of transactions. The revenue associated with each send will be on a sliding scale depending on the size of the particular send.

Though we continue to develop and add functionality to the MPE system, revenue associated with development of the system was reduced to nil for the period ending February 28, 2007 as there were no custom development fees during the period. The reduction from development fees partially offsets the increase in system access fees for an over all growth in MPE fees of 23%.

Pirate Radio sales represent 5% of our total revenue for the six months ending February 28, 2007.

## Operating Expenses

| General and administrative | February 28<br>2007<br>(6 months) | February 28<br>2006<br>(6 months) | \$<br>Change | %<br>Change |
|----------------------------|-----------------------------------|-----------------------------------|--------------|-------------|
| Wages and benefits         | 175,956                           | 92,190                            | 83,766       | 90.9%       |
| Rent                       | 15,125                            | 14,815                            | 310          | 2.1%        |
| Telecommunications         | 6,697                             | 9,415                             | (2,718)      | (28.9%)     |
| Bad debt                   | (6,189)                           | 720                               | (6,909)      | 959.6%      |
| Office and miscellaneous   | 1,324                             | 68,874                            | (67,550)     | (98.1%)     |
| Professional fees          | 72,766                            | 76,631                            | (3,865)      | (5.0%)      |
|                            | 265,679                           | 262,645                           | 3,034        | 1.2%        |

Our general and administrative expenses consist primarily of salaries and related personnel costs including overhead, professional fees, and other general office expenditures. General and administrative costs increased to \$265,679 for the six months ended February 28, 2007 from \$262,645 for the six months ended February 28, 2006, an increase of \$3,034 or approximately 1%. Included in the current period, is \$77,194 of non-cash stock compensation expense which is included in wages and benefits.

Partially offsetting this non-cash expense were foreign exchange gains, a reduction in telecommunication expense, and a recovery of bad debts which were previously included in the allowance for doubtful accounts. The reduction in telecommunication expense is the result of favorable contracts negotiated by management, and is realized in spite of a 62% increase in bandwidth usage. The increased bandwidth usage is due to the growing popularity of the Play MPE system.



| <b>Sales and marketing</b> | <b>February 28<br/>2007<br/>(6 months)</b> | <b>February 28<br/>2006<br/>(6 months)</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|----------------------------|--|--|----------------------|---------------------|
| Wages and benefits         | 192,861                                    | 124,493                                    | 68,368               | 54.9%               |
| Rent                       | 15,125                                     | 14,815                                     | 310                  | 2.1%                |
| Telecommunications         | 6,697                                      | 9,415                                      | (2,718)              | (28.9%)             |
| Meals and entertainment    | 2,504                                      | -  | 2,504                | -                   |
| Travel                     | 5,333                                      | 3,220                                      | 2,113                | 65.6%               |
| Advertising and marketing  | 295,379                                    | 45,551                                     | 249,828              | 548.5%              |
|                            | 517,899                                    | 197,494                                    | 320,405              | 162.2%              |

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. Sales and marketing costs were \$517,899 for the six months ended February 28, 2007 compared to \$197,494 for the six months ended February 28, 2006, representing an increase of \$320,405 or approximately 162%. This increase is due primarily to non-cash stock compensation to employees (\$77,194 included in wages and benefits) and Bryant Park Capital (\$215,376 included in advertising and marketing). Total non-cash stock compensation expense for the period is \$292,570.

Other increases are due to increased commission fees paid on marketing fees associated with promotion of the Play MPE system.

| <b>Research and development</b> | <b>February 28<br/>2007<br/>(6 months)</b> | <b>February 28<br/>2006<br/>(6 months)</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|---------------------------------|--|--|----------------------|---------------------|
| Wages and benefits              | 307,923                                    | 153,651                                    | 154,272              | 100.4%              |
| Rent                            | 26,468                                     | 24,691                                     | 1,777                | 7.2%                |
| Telecommunications              | 11,720                                     | 15,691                                     | (3,971)              | (25.3%)             |
| Repairs and maintenance         | 1,091                                      | -  | 1,091                | -                   |
|                                 | 347,202                                    | 194,033                                    | 153,169              | 78.9%               |

Research and development costs consist primarily of salaries and related personnel costs including overhead, and consulting fees with respect to product development and deployment. Research and development costs increased to \$347,202 for the six months ended February 28, 2007 from \$194,033 for the six months ended February 28, 2006, representing an increase of \$153,169 or approximately 79%.

The increase is primarily due to non-cash stock compensation expense, included in wages and benefits of \$131,516 (or 43% of wages and benefits).

### **Amortization**

Amortization expense arose from fixed assets and other assets. Amortization increased to \$27,061 for the six months ended February 28, 2007 from \$25,672 for the six months ended February 28, 2006, a increase of \$1,389 or 5.4% .

### **Other earnings and expenses**

Interest expense decreased to \$7,228 for the six months ended February 28, 2007 from \$13,015 for a decrease of \$5,787.

### **Losses**

Our loss from operations increased to \$817,843 for the six months ended February 28, 2007 from \$273,073 for the six months ended February 28, 2006, representing an increase of \$544,770. The increase in the loss from operations was due primarily to stock-based compensation expense which was \$501,282 for the six months ended February 28, 2007 (\$29,286 for the same period ending February 28, 2006). Our net loss increased to \$825,071 for the six months ended February 28, 2007 from \$286,088 for the six months ended February 28, 2006, representing an increase of \$538,983.

For our fiscal year ending August 31, 2007, our management plans on concentrating its efforts in the following areas in order to achieve profitability:

1. Commercial deployment and full scale marketing of MPE .
2. Increase sales of the Clipstream technology by focusing on our area of strength undertaking marketing the Clipstream java based streaming solution. Development has been completed and we are now embarking on a marketing and sales program to fully exploit and maximize revenue from this product. Our sales group includes both inside and outside sales and a network of ninety resellers in eleven countries. License agreements and partnership opportunities will be sought with larger content providers, aggregators and resellers.
3. Strategic allocation of current resources to optimize overall ROI.

### **LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$2,028,893 as at February 28, 2007 compared to cash of \$156,337 as at August 31, 2006. We had a working capital surplus of \$1,733,306 as at February 28, 2007 compared to a working capital deficiency of \$59,429 as at August 31, 2006

#### **Working Capital Surplus**

The increase in our working capital surplus is attributed to a significant increase to cash. We have raised \$2,160,000 through private placement which led to a significant increase in our cash.

Our accounts payable and accrued liabilities increased to \$391,780 as at February 28, 2007 from \$328,773 at August 31, 2006, representing a increase of \$63,007 or 19%. Included in our accounts payable balance as at February 28, 2007 is \$53,956 of disputed payables. We are currently considering all options available to extinguish these liabilities.

Our shareholder loans payable of \$17,142 as at August 31, 2006 was repaid in full during the quarter1.

Our current deferred revenues decreased to \$5,053 as at February 28, 2007 from \$10,469 as at August 31, 2006, representing a total decrease of \$5,416 or 52%.

## CASHFLOWS

### Operating

Net cash used in operating activities increased to \$373,180 for the six months ending February 28, 2007, compared to \$334,569 for the six months ended February 28, 2006.

### Investing

Net cash used in investing activities increased to \$11,989 for purchasing equipment during the quarter ended February 28, 2007, as compared with \$0 investing activities for the six months ended February 28, 2006.

### Financing

Net cash provided from financing activities increased to \$2,280,923 during the period ended February 28, 2007, as compared to \$450,814 over the same period in the prior year.

During the six months ended February 28, 2007, the Company completed a private placement which consisted of the issuance of 5,400,000 common shares for net cash proceeds of \$2,150,000. The private placement included a finders fee of \$144,400 which was included in accounts payable, 20,000 common shares, 361,000 warrants exercisable into common shares at \$0.40 expiring February 28, 2012, and 400,000 warrants exercisable into common shares at \$0.50 expiring February 28, 2012 and related legal fee of \$31,652 of which \$21,652 was included in accounts payable at the end of the quarter. The private placement also included the issuance of 5,400,000 warrants exercisable into common shares at \$0.50 expiring February 28, 2012. Also, 467,778 stock options were exercised for cash proceeds of \$147,500.

### Going Concern

We have incurred recurring losses from operations which have been primarily financed by equity transactions. Our 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 we be unable to continue as a going concern. Management expects revenues to grow and become cash flow positive in the short term.

During the most recently completed quarter, the Company was successful in raising over \$2 million in net cash proceeds in an equity private placement. Additionally, the Company is aggressively implementing its business plan of transitioning new and existing customers ( record labels ) to transactional based contracts through the full commercial deployment of its Play MPE system. Until the end of the current quarter, the Company had been receiving a nominal fixed access fee to utilize the Play MPE system. In most cases, the major record labels were sending songs to trusted recipients through our digital system in addition to physical delivery of a CD. Usage has grown such that the various record labels are able to send the song digitally only and, subsequent to the current period, the Company has begun to charge for the service on a transaction fee basis. The Company is pursuing similar transaction fee based agreements with other large record labels and developing an Indie Uploader system for smaller labels. Through the end of the current quarter, the Company continued to utilize cash in operations (\$373,180 for the six months ending February 28, 2007). However, management expects revenues, and cashflows, to increase significantly during the second half of the year. Management believes that current cash resources will be sufficient through fiscal 2008 irrespective of significant revenue growth associated with the Play MPE system.

There are no assurances that the Company will be successful in achieving these goals. In view of these conditions, the ability of the Company to continue as a going concern is not certain. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at

amounts different from those reflected in the accompanying financial statements.

## CRITICAL ACCOUNTING POLICIES

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

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

- The consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. If we were not to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. There can be no assurances that we will be successful in generating additional cash from equity or other sources to be used for operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.
- We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, collection is reasonably assured, and there are no substantive performance obligations remaining. Our revenue recognition policies are in conformity with AICPA's Statement of Position No. 97-2, Software Revenue Recognition, as amended (SOP 97-2). We generate revenue from software arrangements involving multiple element sales arrangements. Revenue is allocated to each element of the arrangement based on the relative fair value of the elements and is recognized as each element is delivered and we have no significant remaining performance obligations. If evidence of fair value for each element does not exist, all revenue from the arrangement is recognized over the term of the arrangement. To-date, evidence of fair value for each element has not been available on sales arrangements. 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.
- During the first and the second quarter of fiscal year ending August 31, 2007, we implemented the following new critical accounting policy related to our stock-based compensation. Beginning September 1, 2006 we began accounting for stock options under the provisions of Financial Accounting Standards 123 (revised 2004), Share-Based Payment (FAS 123(R)), which requires the recognition of the fair value of the stock-based compensation. Under the fair value recognition provisions for FAS 123(R), stock-based compensation cost is estimated at the grant date based on the fair value of the rewards expected to vest and recognized as expense ratably over the requisite service period of the award. We have used the Black-Scholes valuation model to estimate fair value of our stock-based awards which requires various judgmental assumptions including estimating stock price volatility and expected life. Our computation of expected volatility is based on historical implied volatility. In addition, we consider many factors when estimating expected life, including types of awards and historical experience. If any of the assumptions used in the Black-Scholes valuation model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

We adopted FAS 123(R) using the modified-prospective method which requires the application of the accounting standard to existing non-vested awards as of September 1, 2006 and awards granted, modified, repurchased or cancelled subsequently. Our consolidated financial statements as of and for the first quarter of 2006 reflect the impact of FAS 123(R). In accordance with the modified-prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of FAS 123(R).





## 9. RECENT ACCOUNTING PRONOUNCEMENTS

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the effects of the misstatements on each of the company's financial statements and the related financial statement disclosure. SAB 108 will be effective for the fiscal year ending August 31, 2007. The Company will adopt SAB 108 effective September 1, 2006 and does not expect the adoption to have a material impact on the Company's financial statements.

**ITEM 3. CONTROLS AND PROCEDURES.**

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act ), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures at February 28, 2007. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. Steven Vestergaard. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

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

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

On December 19, 2006 the company filed a consent motion with the Federal Court requesting a bifurcation of the issues included in the action by Destiny against Musicrypt Inc. If granted, the issues of infringement and validity of Canadian Patent No. 2,407,774 raised in the claim will be addressed prior to the issue of damages raised in the counterclaim.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of securities holders during the quarter ended November 30, 2006.

**Item 5. Other Information**

None.

**Item 6. EXHIBITS AND REPORTS ON FORM 8-K.**

**(a) Exhibits**

**EXHIBIT DESCRIPTION**  
**NUMBER**

|             |   |
|-------------|---|
| <u>31.1</u> | <u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the securities exchange act as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002<sup>(1)</sup></u> |
| <u>32.1</u> | <u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002<sup>(1)</sup></u>   |

(1) Filed as an exhibit to this Annual Report on Form 10-KSB

**(b) Reports on Form 8-K.**

During the quarter we did not file any form 8-K s.

**SIGNATURES**

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

**DESTINY MEDIA TECHNOLOGIES INC.**

Dated: April 16, 2007

/s/ Steven Vestergaard

Steven Vestergaard, Chief Executive Officer  
and Chief Financial Officer

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