

DESTINY MEDIA TECHNOLOGIES INC  
Form 10QSB  
April 21, 2008

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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 29, 2008

**OR**

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

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

Commission file number: 0-028259

**DESTINY MEDIA TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

**COLORADO**

(State or other jurisdiction of  
incorporation or organization)

**84-1516745**

(IRS Employer Identification No.)

**800 - 570 Granville Street, Vancouver,  
British Columbia Canada V6C 3P1**

(Address of Principal Executive Offices)

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

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

Yes  No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
**49,984,001 Shares of \$0.001 par value common stock outstanding as of February 29, 2008.**

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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Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Six months ended February 29, 2008

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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 29, 2008 \$	August 31, 2007 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	208,976	1,215,183
Accounts and other receivables, net of allowance for doubtful accounts of \$13,588 [August 31, 2007 - \$5,221] [note 10]	276,219	265,849
Prepaid expenses	165,882	194,116
<b>Total current assets</b>	<b>651,077</b>	<b>1,675,148</b>
Property and equipment, net of accumulated amortization of \$308,161 [August 31, 2007 - \$264,061]	144,146	111,907
<b>Total assets</b>	<b>795,223</b>	<b>1,787,055</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable	316,278	132,245
Accrued liabilities [note 7]	327,187	193,197
Deferred revenue	10,851	9,984
<b>Total current liabilities</b>	<b>654,316</b>	<b>335,426</b>
Obligation for share settlement [note 4]	100,000	100,000
<b>Total liabilities</b>	<b>754,316</b>	<b>435,426</b>
Commitments and contingencies [note 6 and 9]		
<b>Stockholders equity [note 5]</b>		
Common stock, par value \$0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 49,984,001 shares [August 31, 2007 49,936,001 shares]	49,986	49,938
Issued and held for settlement: 133,333 shares		
Additional paid-capital	8,668,387	8,484,231
Deficit	(8,814,142)	(7,218,267)
Accumulated other comprehensive income	136,676	35,727
<b>Total stockholders equity</b>	<b>40,907</b>	<b>1,351,629</b>
<b>Total liabilities and stockholders equity</b>	<b>795,223</b>	<b>1,787,055</b>
<i>See accompanying notes</i>		



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENT OF OPERATIONS**

(Expressed in United States dollars)

Unaudited

	<b>Three Months Ended February 29, 2008 \$</b>	<b>Three Months Ended February 28, 2007 \$</b>	<b>Six Months Ended February 29, 2008 \$</b>	<b>Six Months Ended February 28, 2007 \$</b>
<b>Revenue</b> <i>[note 10]</i>	<b>359,809</b>	172,417	<b>716,457</b>	339,998
<b>Operating expenses</b>				
General and administrative	<b>312,853</b>	154,477	<b>631,739</b>	265,679
Sales and marketing	<b>435,796</b>	274,281	<b>921,590</b>	517,899
Research and development	<b>407,116</b>	234,585	<b>785,289</b>	347,202
Amortization	<b>11,744</b>	13,765	<b>21,545</b>	27,061
	<b>1,167,509</b>	677,108	<b>2,360,163</b>	1,157,841
Loss from operations	<b>(807,700)</b>	(504,691)	<b>(1,643,706)</b>	(817,843)
<b>Other income (expenses)</b>				
Other income	<b>23,927</b>		<b>42,115</b>	
Interest income	<b>4,693</b>		<b>14,959</b>	
Interest and other expense	<b>(5,195)</b>	(3,850)	<b>(9,243)</b>	(7,228)
<b>Net loss</b>	<b>(784,275)</b>	(508,541)	<b>(1,595,875)</b>	(825,071)
<b>Net loss per common share, basic and diluted</b>	<b>(0.02)</b>	(0.01)	<b>(0.03)</b>	(0.01)
<b>Weighted average common shares</b>				
<b>outstanding, basic and diluted</b>	<b>49,962,042</b>	42,287,793	<b>49,953,150</b>	42,114,922

*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
			\$		Income	\$
					\$	
<b>Balance, August 31, 2007</b>	49,936,001	49,938	8,484,231	(7,218,267)	35,727	1,351,629
Net loss				(1,595,875)		(1,595,875)
Foreign currency translation gain					100,949	100,949
Comprehensive loss						(1,494,926)
Common stock issued on options exercised	48,000	48	21,952			22,000
Stock based compensation			162,204			162,204
<b>Balance, February 29, 2008</b>	49,984,001	49,986	8,668,387	(8,814,142)	136,676	40,907

*See accompanying notes*



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

	<b>Six Months Ended February 29, 2008 \$</b>	<b>Six Months Ended February 28, 2007 \$</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(1,595,875)	(825,071)
Items not involving cash:		
Amortization	21,545	27,061
Amortization of deferred lease benefit		(16,466)
Stock-based compensation	162,204	501,282
Changes in non-cash working capital:		
Accounts and other receivables	10,645	39,642
Inventory		433
Prepaid expenses	43,692	(6,674)
Accounts payable and accrued liabilities	279,622	(88,382)
Deferred revenue	29	(5,005)
<b>Net cash used in operating activities</b>	<b>(1,078,138)</b>	<b>(373,180)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(37,056)	(11,989)
Proceeds on disposition of capital assets	1,063	
<b>Net cash used in investing activities</b>	<b>(35,993)</b>	<b>(11,989)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock		2,150,000
Proceeds from exercise of stock options	22,000	147,500
Repayments of shareholder loans		(16,577)
<b>Net cash provided by financing activities</b>	<b>22,000</b>	<b>2,280,923</b>
Effect of foreign exchange rate changes on cash	85,924	(23,198)
<b>Net increase (decrease) in cash</b>	<b>(1,006,207)</b>	<b>1,872,556</b>
Cash, beginning of period	1,215,183	156,337
<b>Cash, end of period</b>	<b>208,976</b>	<b>2,028,893</b>
<b>Supplementary disclosure</b>		
Cash paid for interest	9,243	7,228
<i>See accompanying notes</i>		

**Destiny Media Technologies Inc.**

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

Six months ended February 29, 2008

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 November 30, 2007 are not necessarily indicative of the results that may be expected for the year ended August 31, 2008.

The balance sheet at August 31, 2007 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, 2007.

**3. GOING CONCERN UNCERTAINTY**

The financial statements have been prepared by management in accordance with United States generally accepted accounting principles 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.

During the six months ended February 29, 2008, 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. The Company is pursuing transaction fee based agreements with other large record labels and has developed an Indie Uploader system for smaller labels available on [www.myplaympe.com](http://www.myplaympe.com). Through the six months ended February 29, 2008, the Company continued to utilize cash in operations (\$1,078,138

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Six months ended February 29, 2008

Unaudited

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

for the six months ended February 29, 2008 however, management expects revenues, and cashflows, to improve over the remainder of fiscal 2008. Depending on the Company's ability to grow sales and related cash flows, the Company may need to raise additional funds to complete its business plan due to the significant working capital decrease. The Company's goal is to obtain these funds through an optimal mix of internal and external financing opportunities including cash flows from operations, strategic partnerships and equity financings. 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. OBLIGATION FOR SHARE SETTLEMENT**

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

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

(Expressed in United States dollars)

Six months ended February 29, 2008

Unaudited

**5. 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 29, 2008, 48,000 stock options were exercised for cash proceeds of \$22,000.

**[b] Stock option plans**

The Company had previously reserved a total of 8,850,000 common shares for issuance under its existing stock option plans, of which, 1,490,375 remain available for future option issuance. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

*Stock-based Payment Award Activity*

A summary of option activity under the Plans as of February 29, 2008, and changes during the six-month period ended is presented below:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Average Intrinsic Value \$</b>
Outstanding at August 31, 2007	4,287,000	0.48	3.64	796,210
Granted	150,000	0.25	4.25	24,000
Exercised	(48,000)	(0.46)		
Outstanding at February 29, 2008	4,389,000	0.47	3.24	1,129,800
Vested or expected to vest at				
February 29, 2008	4,389,000	0.47	3.24	1,129,800
Exercisable at February 29, 2008	3,962,542	0.46	3.16	1,040,321

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

(Expressed in United States dollars)

Six months ended February 29, 2008

Unaudited

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

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at February 29, 2008.

**[c] Stock-based compensation plans***Impact of Adoption of FAS 123(R)*

At February 29, 2008, 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*. 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 payments granted, modified or cancelled, subsequent to September 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R).

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 ended February 29, 2008 has considerations for estimated forfeitures. When estimating forfeitures, the Company considers voluntary termination behavior as well as trends of actual option forfeitures.

Total stock-based compensation for the six-month period ended February 29, 2008 includes stock-based compensation expense related to employees of \$137,224 and stock-based-compensation expense related to consultants of \$24,980 reported in the statement of operations as follows:

	Three Months Ended		Six Months Ended	
	February 29 2008 \$	February 28 2007 \$	February 29 2008 \$	February 28 2007 \$
<b>Stock-based compensation:</b>				
General and administrative	15,067	72,621	37,469	77,194
Sales and marketing	19,050	164,209	78,159	292,570
Research and development	20,009	126,887	46,576	131,518
Total stock-based compensation	54,126	363,717	162,204	501,282

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

(Expressed in United States dollars)

Six months ended February 29, 2008

Unaudited

**5. 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. The weighted average assumptions used for option grants issued in their respective periods are as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>February 29 2008</b>	<b>February 28 2007</b>	<b>February 29 2008</b>	<b>February 28 2007</b>
Expected term of stock options (years)		2.5-5.0	2.5	2.5-5.0
Expected volatility		85%-94%	85%	85%-94%
Risk-free interest rate		4.4%-5.0%	4.51%	3.9%-5.0%
Dividend yield				

The weighted-average grant-date fair value of options granted during the six-month period ended February 29, 2008 and February 28, 2007 was \$0.27 and \$0.19, respectively.

As of February 29, 2008 there was \$89,079 of unrecognized stock-based compensation cost related to employee stock options granted under the plans, which is expected to be fully recognized over the next 15 months.

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.

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

(Expressed in United States dollars)

Six months ended February 29, 2008

Unaudited

**5. SHARE CAPITAL (cont d.)****[d] Warrants**

As at February 29, 2008, the Company has the following common stock warrants outstanding:

	<b>Number of Common Shares Issuable</b>	<b>Exercise Price \$</b>	<b>Date of Expiry</b>
\$0.22 Warrants	950,000	0.22	August 25, 2011
\$0.40 Warrants	361,000	0.40	February 28, 2012
\$0.50 Warrants	5,800,000	0.50	February 28, 2012
\$0.70 Warrants	500,000	0.70	April 9, 2012
	7,611,000		

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

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. On April 9, 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 paid Bryant Park Capital \$7,500 per month to the end of September 2007 and issued 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 signing of the agreement.

The fair value of the 83,333 \$0.70 warrants, which vested during the six-month ended February 29, 2008 was measured using the Black-Scholes option-pricing model and amounted to \$24,980. 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 29, 2008

Unaudited

**6. COMMITMENTS**

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

	\$
2008	132,851
2009	245,146
2010	245,146
	623,143

The Company has entered into sublease agreements, to offset the cost commitments above. All sublease income has been reported in other income in the statement of operations and has not been reflected in the amounts disclosed above.

**7. RELATED PARTY TRANSACTIONS**

During the period ended February 29, 2008, the Company entered into a sublease agreement with a director effective September 1, 2007. The term of the sublease is 1 year expiring on August 31, 2008, and calls for committed monthly payments of \$6,016 which offsets our lease cost and a deposit of \$12,260 has been received which will be applied to the last two months lease agreements. The rent deposit is included in accrued liabilities.

**8. INCOME TAX**

The Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), on September 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement 109, Accounting for Income Taxes , and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company and its subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well as income tax of multiple state and local jurisdictions. Based on the Company s evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company s financial statements. The Company s evaluation was performed for the tax years ended August 31, 1999 through 2007, the tax years which remain subject to examination by major tax jurisdictions as of February 29, 2008. The Company may be assessed interest or penalties by tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company s financial results.



**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Six months ended February 29, 2008

Unaudited

**9. CONTINGENCIES**

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

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

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

On June 7, 2007 the defendant filed a statement of defense, denying the allegations set out in the statement of claim dated May 3, 2007, and counterclaim against the Company and its CEO, Steve Vestergaard, also in the amount of \$25,000,000, for making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act, and unlawful interference with the defendant's economic relations. The Company further requests an injunction from continuing the defamatory actions.

No amount has been recognized as a receivable for damages as outlined in the statement of claim. The amount of damages awarded, if any, in relation to any claim or counterclaim cannot be reasonably estimated and no receivables or payables have been recognized. Management does not believe that the outcome of this matter will have an adverse impact on its results of operations and financial condition.

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

(Expressed in United States dollars)

Six months ended February 29, 2008

Unaudited

**10. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE**

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

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

	Three Months Ended		Six Months Ended	
	February 29 2008 \$	February 28 2007 \$	February 29 2008 \$	February 28 2007 \$
<b>MPE®</b>				
United States	<b>258,481</b>	54,076	<b>491,817</b>	128,279
Canada	<b>25,573</b>	11,784	<b>54,501</b>	11,784
Total MPE®	<b>284,054</b>	65,860	<b>546,318</b>	140,063
<b>Clipstream ® &amp; Pirate Radio</b>				
United States	<b>66,631</b>	93,967	<b>148,649</b>	170,512
Canada	<b>3,019</b>	10,533	<b>10,189</b>	15,222
Other	<b>6,105</b>	2,057	<b>11,301</b>	14,201
Total Clipstream ® & Pirate Radio	<b>75,755</b>	106,557	<b>170,139</b>	199,935
<b>Total revenue</b>	<b>359,809</b>	172,417	<b>716,457</b>	339,998

During the six months ended February 29, 2008, one customer represented 49% of the total revenue balance [February 28, 2007 one customer represented 23% of the total revenue balance].

As at February 29, 2008, one customer represented 51% of the trade receivables balance [February 28, 2007 two customers represented 42%].

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 29, 2008

Unaudited

**11. RECENT ACCOUNTING PRONOUNCEMENTS**

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.

In February 2007, the Financial Accounting Standards Board issued 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 No. 159 ) which permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal periods beginning after November 15, 2007. The Company will adopt SFAS 159 effective September 1, 2008 and does not expect the adoption to have a material impact on the Company's financial statements.

## **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 AND CORPORATE BACKGROUND**

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

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

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

#### **A) Clipstream® Product Line**

Clipstream® enables audio or video content to be streamed so that the audio or video plays instantly and automatically. This is analogous to TV or radio. Creating streaming video content with other technologies can be a complicated process and in many 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 Sun Microsystems's Java engine. Because Java is included in most operating systems and browsers, Clipstream® encoded content will play instantly. This means that a much higher percentage of potential viewers successfully see the content by using Clipstream® than with other solutions. Clipstream® users are not required to download third party player software which can create instabilities and allow unsafe external access to the user's computer.

Clipstream® products include:

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



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

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

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

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

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

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

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

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B) MPE® Product Line

MPE® enables the secure download of audio or video to a user's computer. Content is protected from unauthorized distribution through two patent pending technologies. The first recognizes a user device as being unique, then encrypts the content to lock to that particular machine. The second patent pending technology embeds a digital trace or watermark into unlocked content, so that copies can be traced back to the owner of the original file.

MPE® products include:

Play MPEä: over 1,000 record labels use this service to deliver pre-release music and music videos to trusted recipients including radio station program directors, music buyers, record label staff and the media. Over 69,000 songs have been sent through this system. <http://www.plaympe.com>

MyPlayMPE: a self service system for smaller independents to distribute music and music videos through Play MPEä <http://www.myplaympe.com>

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

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

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

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

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

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

## **RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED FEBRUARY 29, 2008**

### **Revenue**

Overall revenue grew for the fifth consecutive quarter on the strength of the tenth consecutive quarter of growing Play MPE system access fees.

Our revenues for the quarter increased to \$359,809 which represents an increase of more than 100% over the same period in the prior year and exceeds our previous record, set only in the previous quarter of this year. The increase is driven by a 300% increase to Play MPE system access fees.

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As a result of the seasonality of new track releases, we had anticipated a reduction in the use of the Play MPE system during the latter half of December and early part of January as our record label clients have relatively little activity due to seasonal holidays.

Effective December 31, 2007, we ceased to provide trial access to the Play MPE system for all independent record labels and promoters across all formats. As a result, during the past four months (to March 31, 2008) we have reached agreements with more than 50 independent record labels, and approximately 30 independent promoters. The independent promoter agreements in turn represent in excess of 125 independent record labels. Many of these agreements were reached later in the quarter or into our third quarter and we expect these contracts to have a more significant impact on revenue as the year progresses.

Given the seasonal slowdown, and transition to transaction fee based contracts, management is very encouraged by our revenue growth and reaching a record for revenue for the second consecutive quarter.

Effective April 1, 2007, we signed a one year transaction based agreement with Universal Music Group. Additionally, on December 18, 2007, we signed a North America wide content distribution contract with EMI Music North America covering all sub-labels of the EMI group Along with contracts covering an additional 24 sub-labels of Warner Music Group and Sony/BMG, we believe this represents a significant endorsement and another milestone in the road to establishing Play MPE as the global leader in the secure distribution of pre-release music to radio.

Though the agreement with EMI Music North America was effective November 1, 2007, the full rollout internally amongst all labels of EMI Music North America remains underway and thus revenue associated with this contract represents less than 10% of our revenue for the quarter. We anticipate this revenue to grow significantly as they complete their transaction to digital delivery throughout the next several quarters.

Overall, our revenues increased to \$716,457 for the six months ended February 29, 2008 from \$339,998 for the six months ended February 28, 2007, more than doubling our revenue from the previous year.

Approximately 22% of our revenues are derived from sales of our Clipstream® software, and decreased from the six months ended February 28, 2007 by 15%. We hope to increase sales of Clipstream® licenses through our hosted solution, which should be available later in this year, and other license opportunities.

Radio Destiny sales represent 2% of our total revenue.

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## Operating Expenses

At the end of the second quarter of last year we positioned ourselves to market and support the Play MPE line of services internally. This required hiring additional staff in Play MPE management and support and additional software development staff. This shift began in March 2007 and has been the most significant impact to current expenditures. Our staffing has remained substantially the same since April 2007.

Additionally, we began targeted marketing and advertising campaigns to develop the market for Play MPE. There have been modest increases in technical costs like internet bandwidth, equipment etc. over this same time period. During the latter half of fiscal 2007 and throughout fiscal 2008, we have been servicing a fully operational Play MPE system as our clients continued to use our system extensively. This allowed us to expand the use at both radio and record labels and to establish the Play MPE network.

While we have had additional variations which are discussed in more detail below, our expenditures have remained relatively unchanged since completing this transition and are not expected to increase significantly as we continue to transition our clients to transactional based contracts.

General and administrative	February 29 2008 (6 months)	February 28 2007 (6 months)	\$ Change	% Change
Wages and benefits	215,877	175,956	39,921	22.7%
Rent	27,461	15,125	12,336	81.6%
Telecommunications	9,593	6,697	2,896	43.2%
Bad debt	7,782	(6,189)	13,971	-225.7%
Office and miscellaneous	168,728	1,324	167,404	12643.8%
Professional fees	202,298	72,766	129,532	178.0%
	631,739	265,679	366,060	137.8%

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

The increase in salaries and wages is due primarily to the increase in additional staff. The increase in professional fees is due to a greater volume of legal work associated with securities, litigation, contracts, patents and trademarks. Office and miscellaneous costs have increased as a result of a listing application, investor relations fees, and foreign exchange losses.

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

<b>Sales and marketing</b>	<b>February 29 2008 (6 months)</b>	<b>February 28 2007 (6 months)</b>	<b>\$ Change</b>	<b>% Change</b>
Wages and benefits	351,873	192,861	159,012	82.4%
Rent	43,938	15,125	28,813	190.5%
Telecommunications	15,348	6,697	8,651	129.2%
Meals and entertainment	15,768	2,504	13,264	529.7%
Travel	38,195	5,333	32,862	616.2%
Advertising and marketing	456,468	295,379	161,089	54.5%
	921,590	517,899	403,691	77.9%

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The majority of this increase was due to additional staff to further the distribution and acceptance of the Play MPE distribution system. The increase in advertising and marketing is due primarily to a rise in marketing fees associated with our MPE® system. As a result of this increased marketing expenditure, adoption and usage of the Play MPE system increased significantly during the quarter.

During the year, marketing efforts included attending various conventions to promote Play MPE as follows:

September 26-28, 2007: Exhibitor at the combined Radio & Records/National Association of Broadcasters Radio Show Convention in Charlotte, North Carolina (including several advertisements).

October 5-10, 2007: Billboard Dance Music Summit in Las Vegas, Nevada.

November 1, 2, 2007: The Hollywood Reporter, Billboard Film & TV Music Conference in Los Angeles, California.

November 15, 16, 2007: Radio & Record Christian Summit in Nashville, Tennessee.

November 28-30, 2007: Billboard R&B Hip Hop Conference in Atlanta, Georgia.

November 30-December 2, 2007: Billboard I Rock the Mic events in Miami, Florida.

November 28-30, 2007: Billboard R&B Hip Hop Conference in Atlanta, Georgia.

January 9, 2008: Billboard Digital Music Conference in Los Angeles, California.

Additionally, our staff have toured extensively throughout the United States meeting with major market radio networks expanding the knowledge and acceptance of our Play MPE system. Greater detail on our marketing efforts can be found at <http://www.dsnyc.com/news/> ..

As part of our Clipstream® marketing we also attended:

October 5, 2007: Counsel of American Survey Research Organization s (CASRO) 32<sup>nd</sup> Annual Conference in Scottsdale, Arizona.

October 29 - November 1, 2007: VON Fall Expo in Boston, Massachusetts.

<b>Research and development</b>	<b>February 29 2008 (6 months)</b>	<b>February 28 2007 (6 months)</b>	<b>\$ Change</b>	<b>% Change</b>
Wages and benefits	670,245	307,923	362,322	117.7%
Rent	85,261	26,468	58,793	222.1%
Telecommunications	29,783	11,720	18,063	154.1%
Repairs and maintenance	-	1,091	-	-
	785,289	347,202	439,178	126.5%

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The increase is mainly due to increased staff.

### **Amortization**

Amortization expense arose from fixed assets and other assets. Amortization decreased to \$21,545 for the six months ended February 29, 2008 from \$27,061 for the six months ended February 28, 2007, a decrease of \$5,516 or 20%.

### **Other earnings and expenses**

Other income increased by \$42,115 for the six months ended February 29, 2008 and reflects rent collected from sub-leases of our office space.

Interest income increased by \$14,959 for the six months ended February 29, 2008 as a result of the investment on GICs and bonds.

Interest expense increased to \$9,243 for the six months ended February 29, 2008 from \$7,228 for the six months ended February 28, 2007, an increase of \$2,015.

### **Losses**

Our loss from operations increased to \$1,643,706 for the six months ended February 29, 2008 from \$817,843 for the six months ended February 28, 2007, representing an increase of \$825,863. Our net loss increased to \$1,595,875 for the six months ended February 29, 2008 from \$825,071 for the six months ended February 28, 2007, representing an increase of \$770,804 or 93%.

For our quarter ending February 29, 2008, our acceptance and penetration for our Play MPE system had reached a level which allowed us to cease to provide trial access to our independent record labels and promoters across all formats. Since that time we have signed many of our users to transaction based contracts and we continue to pursue additional contracts. We anticipate expanding the use of our system by existing customers. Additionally we are in active contract negotiations with most major record labels in Europe, Asia and Australia.

Our revenue has increased significantly and we hope to continue this progress by way of increased revenue generating contracts for Play MPE, an expansion into Europe and Australia and more use by existing customers. However, as we have increased staff and marketing expenditures our losses have increased. These increases are part of our business plan as we expect to continue to realize future increases in revenue.

## **LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$208,976 as at February 29, 2008 compared to cash of \$1,215,183 as at August 31, 2007. We had a working capital deficiency of \$3,239 as at February 29, 2008 compared to a working capital surplus of \$1,339,722 as at August 31, 2007.

### **Working Capital**

The decrease in our working capital is substantially attributed to the use of cash in operating activities of \$1,078,138.

The change in non-cash working capital was \$393,974 for the six months ended February 29, 2008, primarily as a result of delaying payment on accounts payable and accrued liabilities. Our accounts payable and accrued liabilities increased to \$631,205 as at February 29, 2008 from \$325,442 at August 31, 2007, representing an increase of \$305,763 or 94%.

## **CASHFLOWS**

### **Operating**

Net cash used in operating activities increased to \$1,078,138 for the six months ending February 29, 2008, compared to \$373,180 for the six months ended February 28, 2007.

### **Investing**

Net cash used in investing activities increased to \$35,993 for purchasing equipment during the six months ended February 29, 2008, as compared with \$11,989 investing activities for the six months ended February 29, 2007.

### **Financing**

Net cash provided from financing activities decreased to \$22,000 during the six months ended February 29, 2008, as compared to \$2,280,923 over the same period in the prior year. The company received \$22,000 of proceeds on the exercising of stock options as of February 29, 2008.

### **Going Concern**

During the six months ended February 29, 2008, we are aggressively implementing our business plan of transitioning new and existing customers ( record labels ) to transactional based contracts through the full commercial deployment of its Play MPE system. We are pursuing transaction fee based agreements with other large record labels and have developed an Indie Uploader system for smaller labels available on [www.myplaympe.com](http://www.myplaympe.com). During the six months ended February 29, 2008, we continued to utilize cash in operations (\$1,078,138 for the six months ended February 29, 2008), however, we expect revenues, and cashflows, to improve for the remainder of fiscal 2008. Depending on our ability to grow sales and related cash flows, we may need to raise additional funds to complete our business plan due to our significant working capital decrease. Our goal is to obtain these funds through an optimal mix of internal and external financing opportunities including cash flows from operations, strategic partnerships and equity financings.

There are no assurances that we will be successful in achieving these goals. In view of these conditions, our ability of the Company to continue as a going concern is not certain. Our interim financial statements do not give effect to any adjustments which would be necessary should we be unable to continue as a going concern and therefore be required to realize our assets and discharge our liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying interim 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.
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**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 29, 2008. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer, Mr. Steven Vestergaard and Chief Financial Officer, Mr. Fred Vandenberg. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no material changes in our internal controls or in other factors that could materially affect internal controls subsequent to the date we carried out our evaluation.

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

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

No developments subsequent to August 31, 2007,

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

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

No matters were submitted to a vote of securities holders during the six months ended February 29, 2008.

**Item 5. Other Information**

None.

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

**(a) Exhibits**

EXHIBIT DESCRIPTION  
NUMBER

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)

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

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

During the six months ended February 29, 2008, we filed the following reports on Form 8-K.

On December 21, 2007 we announced Destiny Media Technologies had agreed to terms with a second of four major record labels for the digital distribution of content through the Play MPE system in Canada, the United States and Mexico. The agreement would be effective November 1, 2007. Further details on this agreement were announced on February 1, 2008.

On February 1, 2008 we announced an agreement with EMI Music North America to distribute their music digitally through the internet to radio stations and other trusted recipients in Canada, the United States and Mexico using the company's secure Play MPE digital distribution system (<http://www.plaympe.com>). The contract is effective November 1, 2007 and is for a one year term.

On February 19, 2008 we announced Destiny Media Technologies has received an opinion regarding whether existing common shares constitute a qualified investment for a trust governed by a registered retirement savings plan (a RRSP ) for Canadian Income Tax purposes.

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**SIGNATURES**

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

**DESTINY MEDIA TECHNOLOGIES INC.**

Dated: April 21, 2008

/s/ Steven Vestergaard

Steven Vestergaard, Chief Executive Officer

and

Dated: April 21, 2008

/s/ Frederick Vandenberg

Frederick Vandenberg, Chief Financial Officer

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