

DESTINY MEDIA TECHNOLOGIES INC
Form 10QSB
January 17, 2008

**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 three months ended **November 30, 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.)

**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:
49,944,001 Shares of \$0.001 par value common stock outstanding as of November 30, 2007.

Transitional small business disclosure format (check one):

Yes No

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

Consolidated Financial Statements

Destiny Media Technologies Inc.

(Unaudited)

Three months ended November 30, 2007

Destiny Media Technologies Inc.**CONSOLIDATED BALANCE SHEETS**

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

As at

| | November 30, 2007 \$ | August 31, 2007 \$ |
|---|-------------------------------|--------------------------|
| ASSETS | | |
| Current | | |
| Cash | 670,931 | 1,215,183 |
| Accounts and other receivables, net of allowance for doubtful accounts of \$10,399 [August 31, 2007 - \$5,221] [note 7 & 10] | 228,320 | 265,849 |
| Loans [note 7] | 98,485 | |
| Prepaid expenses | 201,584 | 194,116 |
| Total current assets | 1,199,320 | 1,675,148 |
| Property and equipment, net of accumulated amortization of \$292,769 [August 31, 2007 - \$264,061] | 127,457 | 111,907 |
| Total assets | 1,326,777 | 1,787,055 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current | | |
| Accounts payable | 278,081 | 132,245 |
| Accrued liabilities | 172,864 | 193,197 |
| Deposit from related party [note 7] | 12,121 | |
| Deferred revenue | 8,081 | 9,984 |
| Total current liabilities | 471,147 | 335,426 |
| Obligation for share settlement [note 4] | 100,000 | 100,000 |
| Total liabilities | 571,147 | 435,426 |
| Commitments and contingencies [note 6 and 9] | | |
| Stockholders equity [note 5] | | |
| Common stock, par value \$0.001 | | |
| Authorized: 100,000,000 shares | | |
| Issued and outstanding: 49,944,001 shares [August 31, 2007 49,936,001 shares] | 49,946 | 49,938 |
| Issued and held for settlement: 133,333 shares | | |
| Additional paid-capital | 8,594,301 | 8,484,231 |
| Deficit | (8,029,867) | (7,218,267) |
| Accumulated other comprehensive loss | 141,250 | 35,727 |
| Total stockholders equity | 755,630 | 1,351,629 |
| Total liabilities and stockholders equity | 1,326,777 | 1,787,055 |

See accompanying notes

Destiny Media Technologies Inc.**CONSOLIDATED STATEMENT OF OPERATIONS**

(Expressed in United States dollars)

Unaudited

| | Three Months Ended November 30, 2007 \$ | Three Months Ended November 30, 2006 \$ |
|--|--|--|
| Revenue <i>[note 10]</i> | 356,648 | 167,581 |
| Operating expenses | | |
| General and administrative | 318,886 | 111,202 |
| Sales and marketing | 485,794 | 243,618 |
| Research and development | 378,173 | 112,617 |
| Amortization | 9,801 | 13,296 |
| | 1,192,654 | 480,733 |
| Loss from operations | (836,006) | (313,152) |
| Other earnings (expenses) | | |
| Other income | 18,188 | |
| Interest income | 10,266 | |
| Interest and other expense | (4,048) | (3,378) |
| Net loss for the period | (811,600) | (316,530) |
| Net loss per common share, basic and diluted | (0.02) | (0.01) |
| Weighted average common shares outstanding, basic and diluted | 49,942,462 | 41,936,223 |

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 | \$ |
| | | | | | \$ | |
| Balance, August 31, 2007 | 49,936,001 | 49,938 | 8,484,231 | (7,218,267) | 35,727 | 1,351,629 |
| Net loss | | | | (811,600) | | (811,600) |
| Foreign currency translation gain | | | | | 105,523 | 105,523 |
| Comprehensive loss | | | | | | (706,077) |
| Common stock issued on options exercised | 8,000 | 8 | 1,992 | | | 2,000 |
| Stock based compensation | | | 108,078 | | | 108,078 |
| Balance, November 30, 2007 | 49,944,001 | 49,946 | 8,029,867 | (8029,867) | 141,250 | 755,630 |

See accompanying notes

Destiny Media Technologies Inc.**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

| | Three Months Ended November 30, 2007 \$ | Three Months Ended November 30, 2006 \$ |
|--|--|--|
| OPERATING ACTIVITIES | | |
| Net loss for the period | (811,600) | (316,530) |
| Items not involving cash: | | |
| Amortization | 9,801 | 13,296 |
| Amortization of deferred lease benefit | | (8,377) |
| Stock-based compensation | 108,078 | 137,565 |
| Changes in non-cash working capital: | | |
| Accounts and other receivables | 55,517 | 40,916 |
| Inventory | | 191 |
| Loan | (98,521) | |
| Prepaid expenses | 6,437 | |
| Accounts payable and accrued liabilities | 121,497 | (6,205) |
| Deferred revenue | (2,619) | (2,445) |
| Net cash used in operating activities | (611,410) | (141,589) |
| INVESTING ACTIVITIES | | |
| Purchase of equipment | (23,401) | (511) |
| Proceeds on disposition of capital assets | 1,071 | |
| Net cash used in investing activities | (22,330) | (511) |
| FINANCING ACTIVITIES | | |
| Net (repayments) proceeds on shareholder loans payable | | (16,868) |
| Proceeds from common stock to be issued | | 27,500 |
| Proceeds from exercise of stock options | 2,000 | |
| Net cash provided by financing activities | 2,000 | 10,632 |
| Effect of foreign exchange rate changes on cash | 87,488 | (2,494) |
| Net increase (decrease) in cash | (544,252) | (133,962) |
| Cash, beginning of period | 1,215,183 | 156,337 |
| Cash, end of period | 670,931 | 22,375 |
| Supplementary disclosure | | |
| Cash paid for interest | 4,048 | 3,378 |
| <i>See accompanying notes</i> | | |

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Three months ended November 30, 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 three 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 quarter ended November 30, 2007, 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. Through the end of the current quarter, the Company continued to utilize cash in operations (\$611,410 for the quarter ending November 30, 2007). However, management expects revenues, and cashflows, to increase

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Three months ended November 30, 2007

Unaudited

3. GOING CONCERN UNCERTAINTY (cont d.)

significantly in 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)

Three months ended November 30, 2007

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 three months ended November 30, 2007, 8,000 stock options were exercised for cash proceeds of \$2,000.

[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 November 30, 2007, and changes during the three-month period ended is presented below:

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Average Intrinsic Value \$ |
|----------------------------------|----------------|--|--|---|
| Outstanding at August 31, 2007 | 4,287,000 | 0.42 | 3.64 | 796,210 |
| Granted | 150,000 | 0.25 | 4.50 | 24,000 |
| Exercised | <u>(8,000)</u> | (0.25) | | |
| Outstanding at November 30, 2007 | 4,429,000 | 0.47 | 3.49 | 439,270 |
| Vested or expected to vest at | | | | |
| November 30, 2007 | 4,429,000 | 0.47 | 3.49 | 439,270 |
| Exercisable at November 30, 2007 | 3,851,709 | 0.46 | 3.38 | 389,708 |

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Destiny Media Technologies Inc.

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

Three months ended November 30, 2007

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 November 30, 2007.

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

At November 30, 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*. 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 three-month ended November 30, 2006 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 three-month ended November 30, 2007 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 three-month period ended November 30, 2007 includes stock-based compensation expense related to employees of \$83,098 and stock-based-compensation expense related to consultants of \$24,980 reported in the statement of operations as follows:

| | November 30, 2007 | November 30, 2006 |
|--------------------------------|----------------------------------|----------------------------------|
| | \$ | \$ |
| Stock-based compensation: | | |
| General and administrative | 22,402 | 4,573 |
| Sales and marketing | 59,109 | 128,361 |
| Research and development | 26,567 | 4,631 |
| Total stock-based compensation | 108,078 | 137,565 |

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

(Expressed in United States dollars)

Three months ended November 30, 2007

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 based on the following assumptions:

| | Three months ended | |
|--|----------------------------------|----------------------------------|
| | November 30, 2007 | November 30, 2006 |
| Expected life of stock options (years) | 2.50 | 2.50-5.0 |
| Expected volatility | 85% | 86-94% |
| Risk-free interest rate | 4.51% | 3.9-4.2% |

Dividend yields

The weighted-average grant-date fair value of options granted during the three-month period ended November 30, 2007 and 2006 was \$0.27 and \$0.11, respectively.

As of November 30, 2007 there was \$143,000 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 18 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.

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

(Expressed in United States dollars)

Three months ended November 30, 2007

Unaudited

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

As at November 30, 2007, the Company has the following common stock warrants outstanding:

| | Number of Common Shares Issuable | Exercise Price \$ | Date of Expiry |
|-----------------|---|------------------------------|-----------------------|
| \$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 three-month ended November 30, 2007, 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)

Three months ended November 30, 2007

Unaudited

6. COMMITMENTS

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

\$

| | |
|------|---------|
| 2008 | 210,162 |
| 2009 | 245,146 |
| 2010 | 245,146 |
| | 700,454 |

The Company has entered into sublease agreements as described in note 7, to offset the cost commitments above which have not been reflected in the above amounts.

7. RELATED PARTY TRANSACTIONS

During the period ended November 30, 2007, 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 \$6,063 which offsets our lease cost and a deposit of \$12,121 has been received which will be applied to the last two months lease agreements.

Loans outstanding are amounts owing from management employees and due on demand and attracts interest at 7.5% repayable against salary and wages and repayments during the second quarter.

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 January 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 November 30, 2007. 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)

Three months ended November 30, 2007

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 either 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)

Three months ended November 30, 2007

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 November 30 | |
|---|---|-------------|
| | 2007 | 2006 |
| | \$ | \$ |
| MPE® | | |
| United States | 233,336 | 74,203 |
| Canada | 28,928 | |
| Total MPE® Revenue | 262,264 | 74,203 |
| Clipstream ® & Pirate Radio | | |
| United States | 82,018 | 76,545 |
| Canada | 7,170 | 4,689 |
| Other | 5,196 | 12,144 |
| Total Clipstream ® & Pirate Radio Revenue | 94,384 | 93,378 |
| Total Revenue | 356,648 | 167,581 |

During the three months ended November 30, 2007, one customer represented 49% of the total revenue balance [November 30, 2006 – one customer represented 23% of the total revenue balance].

As at November 30, 2007, two customers represented 43% of the trade receivables balance of \$85,040 [November 30, 2006 – two customers represented 55%].

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)

Three months ended November 30, 2007

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.

Destiny Media Technologies Inc.

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

Three months ended November 30, 2007

Unaudited

12. SUBSEQUENT EVENTS

On December 18, 2007, the Company received a new signed agreement with another Major record label. This agreement represents the second of four record labels commonly referred to as the Major Record Label group in the United States. Though this agreement's effective date is November 1, 2007, we have not recognized any receivable or revenue during the period in respect of this agreement in accordance with SOP 97-2 which requires persuasive evidence of the existence of an agreement. As the agreement was signed by both parties subsequent to November 30, 2007, evidence of this agreement occurred subsequent to the end of the first quarter and, accordingly, revenue will be recognized subsequent to the first quarter in accordance with the provisions of SOP 97-2.

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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 similar 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>

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 MPE®: 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 MPE(TM)

<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.dsny.com>.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2007

Revenue

Overall, our first quarter revenues grew by 29% over the previous quarter to \$356,648. This represents the highest quarterly revenue in the Company's history and exceeded management projections. This revenue growth was primary due to an increase in our total MPE revenue. Revenue associated with our MPE® technology has grown by approximately 253% compare to the same quarter of last year and has grown approximately 31% compared to the last quarter and now represents approximately 74% of our total revenue. This acceleration in MPE® revenue is the direct result of the progress we have made in becoming an industry standard across geographic locations and across formats. During this quarter we

continued to transition our customers to transactional based contracts and revenue continued to grow through to the end of the quarter.

Subsequent to the end of the quarter we signed an agreement with the second of the four record labels considered the four *Major Record Labels*. We have not recognized any amount receivable or included any revenue in respect of this agreement in accordance with SOP 97-2 as persuasive evidence of the agreement did not occur until December 18, 2007, subsequent to the end of the quarter. Thus our record revenues during the quarter were achieved without this significant agreement.

Our revenue model is based on invoicing on a price per send . At January 11, 2008, we have delivered more than 69,000 individual songs in more than 95,000,000 transactions. We refer to a transaction as one song which is made available to one recipient. For revenue purposes, fees are based on sends as defined in their respective agreements, and could include a single transaction or group of transactions. A send is a song, bundle of songs, album, box set, or video, authorized to be sent to a particular recipient. The revenue associated with each send will be on a sliding scale depending on the size of the particular send.

The MPE® security engine powers two products: the Play MPEä (www.plaympe.com) media distribution system, and our online music store software suite (www.podds.ca). Our www.myplaympe.com system was launched immediately following the year end. MyPlayMPE is a system catered to smaller independent labels and allows access to our distribution network.

Approximately 24% of our revenues are derived from sales of our Clipstream® software, and increased from the same quarter of last year by 1% and increased from the last quarter by 22%.

Radio Destiny sales represent 2% of our total revenue.

Operating Expenses

| General and administrative | November 30 2007 (3 months) | November 30 2006 (3 months) | \$ Change | % Change |
|----------------------------|-----------------------------------|-----------------------------------|--------------|-------------|
| Wages and benefits | 97,768 | 53,256 | 44,512 | 83.6% |
| Rent | 13,435 | 7,560 | 5,875 | 77.7% |
| Telecommunications | 5,687 | 3,535 | 2,152 | 60.9% |
| Bad debt | 4,956 | (7,375) | 12,331 | (167.2%) |
| Office and miscellaneous | 100,426 | 11,190 | 89,236 | 797.5% |
| Professional fees | 96,614 | 43,036 | 53,578 | 124.5% |
| | 318,886 | 111,202 | 207,684 | 186% |

General and Administrative. 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 in part to the increase in non-cash compensation, and 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 and foreign exchange losses.

At the end of fiscal 2007 (August 31, 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 on the face the Statement of Operations.

| Sales and marketing | November 30 2007 (3 months) | November 30 2006 (3 months) | \$ Change | % Change |
|----------------------------|--|--|----------------------|---------------------|
| Wages and benefits | 167,501 | 61,856 | 105,645 | 170.8% |
| Rent | 22,128 | 7,560 | 14,568 | 192.7% |
| Telecommunications | 9,367 | 3,535 | 5,832 | 165.0% |
| Meals and entertainment | 4,639 | 631 | 4,008 | 635.2% |
| Travel | 17,556 | 1,553 | 16,003 | 1030.5% |
| Advertising and marketing | 264,603 | 168,483 | 96,120 | 57.1% |
| | 485,794 | 243,618 | 242,176 | 99.4% |

Sales and marketing. 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 non-cash stock compensation expense, valued at \$24,980, related to warrants granted to a consultant of the company providing strategic investment advisory services and in part 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.

| Research and development | November 30 2007 (3 months) | November 30 2006 (3 months) | \$ Change | % Change |
|---------------------------------|--|--|----------------------|---------------------|
| Wages and benefits | 316,309 | 93,198 | 223,111 | 239.4% |
| Rent | 43,465 | 13,231 | 20,234 | 228.5% |
| Telecommunications | 18,399 | 6,188 | 12,211 | 197.3% |
| | 378,173 | 112,617 | 265,556 | 235.8% |

Research and Development. 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 both increased staff and stock based compensation.

Amortization

Amortization expense arose from fixed assets and other assets. Amortization decreased to \$9,801 for the three months ended November 30, 2007 from \$13,296 for the three months ended November 30, 2006, a decrease of \$3,495 or 26%.

Other earnings and expenses

Other income increased by \$18,188 for the three months ended November 30, 2007 reflects rent collected from a sub-lease of our office space.

Interest income increased by \$10,266 for the three months ended November 30, 2007 as a result of the investment on GICs and bonds.

Interest and other expense increased to \$4,048 for the three months ended November 30, 2007 from \$3,378 for the three months ended November 30, 2006, an increase of \$670.

Losses

Our loss from operations increased to \$836,006 for the three months ended November 30, 2007 from \$313,152 for the three months ended November 30, 2006, representing an increase of \$522,854. Our net loss increased to \$811,600 for the three months ended November 30, 2007 from \$316,530 for the three months ended November 30, 2006, representing an increase of \$495,070 or 156%.

For our quarter ending November 30, 2007, our management plans to increase sales and marketing of Clipstream(tm) licenses and to transition trial phase customers of Play MPE(tm) to a commercial transaction model.

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 is no assurance that we will achieve the required financing.

LIQUIDITY AND FINANCIAL CONDITION

We had cash of \$670,931 as at November 30, 2007 compared to cash of \$1,215,183 as at August 31, 2007. We had a working capital surplus of \$728,173 as at November 30, 2007 compared to a working capital surplus of \$1,339,722 as at August 31, 2007.

Working Capital Surplus

The decrease in our working capital surplus is attributed to a significant decrease in cash.

Our accounts payable and accrued liabilities increased to \$450,945 as at November 30, 2007 from \$325,442 at August 31, 2007, representing an increase of \$125,503 or 39%. Included in our accounts payable and accrued liabilities balance as at November 30, 2007 is \$172,864 of accrued liabilities and \$278,081 trade accounts payable.

A deposit increased to \$12,121 as at November 30, 2007 from \$0 as at August 31, 2007.

Our current deferred revenues decreased to \$8,081 as at November 30, 2007 from \$9,984 as at August 31, 2007, representing a total decrease of \$1,903 or 19%.

CASHFLOWS

Operating

Net cash used in operating activities increased to \$611,410 for the three months ending November 30, 2007, compared to \$141,589 for the three months ended November 30, 2006.

Investing

Net cash used in investing activities increased to \$22,330 for purchasing equipment during the quarter ended November 30, 2007, as compared with \$511 investing activities for the three months ended November 30, 2006.

Financing

Net cash provided from financing activities decreased to \$2,000 during the period ended November 30, 2007, as compared to \$10,632 over the same period in the prior year. The company received \$2,000 of proceeds for exercising options as of November 30, 2007.

Going Concern

During the quarter ended November 30, 2007, 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. Through the end of the current quarter, the Company continued to utilize cash in operations (\$611,410 for the quarter ending November 30, 2007). However, management expects revenues, and cashflows, to increase significantly in 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 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.

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 November 30, 2007. 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 quarter ended November 30, 2007.

Item 5. Other Information

None.

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

(a) Exhibits

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|-------------|
|-------------------|-------------|

| | |
|-------------|--|
| <u>31.1</u> | <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)</u> |
|-------------|--|

| | |
|-------------|--|
| <u>31.2</u> | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)</u> |
|-------------|--|

| | |
|-------------|---|
| <u>32.1</u> | <u>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)</u> |
|-------------|---|

| | |
|-------------|---|
| <u>32.2</u> | <u>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)</u> |
|-------------|---|

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

(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: January 16, 2008

/s/ Steven Vestergaard
Steven Vestergaard, Chief Executive Officer

and

Dated: January 16, 2008

/s/ Frederick Vandenberg
Frederick Vandenberg, Chief Financial Officer
