DESTINY MEDIA TECHNOLOGIES INC
Form 10QSB
April 21, 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 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	**84-1516745**
(State or other jurisdiction of incorporation or organization)	(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 X 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 <u>X</u>

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

Consolidated Financial Statements

Destiny Media Technologies Inc.
(Unaudited)
Six months ended February 29, 2008

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 $
ASSETS		
Current		
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
Total current assets	**651,077**	1,675,148
Property and equipment, net of accumulated amortization of $308,161 [August 31, 2007 - $264,061]	**144,146**	111,907
Total assets	**795,223**	1,787,055
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	**316,278**	132,245
Accrued liabilities *[note 7]*	**327,187**	193,197
Deferred revenue	**10,851**	9,984
Total current liabilities	**654,316**	335,426
Obligation for share settlement *[note 4]*	**100,000**	100,000
Total liabilities	**754,316**	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: 49,984,001 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
Total stockholders equity	**40,907**	1,351,629
Total liabilities and stockholders equity	**795,223**	1,787,055

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENT OF OPERATIONS
(Expressed in United States dollars)
Unaudited

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

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENT OF STOCK HOLDERS EQUITY
(Expressed in United States dollars)
Unaudited

	Common stock Shares	Amount	Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Income	Total Stockholders Equity
	#	$	$	$	$	$
Balance, August 31, 2007	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
Balance, February 29, 2008	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

	Six Months Ended February 29, 2008 $	Six Months Ended February 28, 2007 $
OPERATING ACTIVITIES		
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)
Net cash used in operating activities	**(1,078,138)**	(373,180)
INVESTING ACTIVITIES		
Purchase of equipment	**(37,056)**	(11,989)
Proceeds on disposition of capital assets	**1,063**	
Net cash used in investing activities	**(35,993)**	(11,989)
FINANCING ACTIVITIES		
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)
Net cash provided by financing activities	**22,000**	2,280,923
Effect of foreign exchange rate changes on cash	**85,924**	(23,198)
Net increase (decrease) in cash	**(1,006,207)**	1,872,556
Cash, beginning of period	**1,215,183**	156,337
Cash, end of period	**208,976**	2,028,893
Supplementary disclosure		
Cash paid for interest	**9,243**	7,228

See accompanying notes

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. 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:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value $
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

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 $**
Stock-based compensation:				
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

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:

	Three Months Ended		Six Months Ended	
	February 29 2008	February 28 2007	February 29 2008	February 28 2007
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.

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:

	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 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.

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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

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