DESTINY MEDIA TECHNOLOGIES INC
Form 10QSB
April 17, 2006

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 quarterly period ended February 28, 2006

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.)

**1055 West Hastings Street, Suite 1040, Vancouver,
British Columbia Canada V6E 2E9**
(Address of Principal Executive Offices)

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

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

Yes X No __

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **40,345,223 Shares of $0.001 par value common stock outstanding as of February 28, 2006.**

Transitional small business disclosure format (check one):

Yes __ No X

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

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Consolidated Financial Statements

Destiny Media Technologies Inc.
(Unaudited)
Three and six months ended February 28, 2006

Destiny Media Technologies Inc.

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

As at

	February 28, 2006 $	**August 31, 2005** $
ASSETS		
Current		
Cash	**172,220**	30,576
Accounts and other receivables, net of allowance for doubtful accounts of $7,698 [2005 - $7,000] *[note 9]*	**82,660**	46,437
Inventory	**1,682**	2,246
Prepaid expenses	**7,294**	2,327
Total current assets	**263,856**	81,586
Software development costs, net of accumulated amortization of $34,203 [2005 - $18,890]	**45,524**	58,693
Property and equipment, net of accumulated amortization of $236,996 [2005 - $216,202]	**58,029**	65,863
Total assets	**367,409**	206,142
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current		
Accounts payable *[note 8(d)]*	**205,310**	277,512
Accrued liabilities	**131,898**	91,573
Deposits on shares issuable *[note 7(a)]*	**68,150**	-
Shareholder loans payable *[note 5]*	**23,630**	337,773
Deferred revenue	**3,804**	32,329
Total current liabilities	**432,792**	739,187
Deferred leasehold inducements, net of accumulated amortization of $36,654 [2005 - $22,104]	**47,207**	58,594
Obligation for share settlement *[note 6]*	**100,000**	100,000
Total liabilities	**579,999**	897,781
Commitments and contingencies *[note 8]*		
Stockholders' deficiency*[note 7]*		
Common stock, par value $0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 40,345,223 shares		
August 31, 2005 - 36,434,223 shares]	**40,227**	36,436
Issued and held for settlement: 133,333 shares		
Additional paid-capital	**4,778,500**	4,022,123
Deficit	**(4,922,046)**	(4,635,958)
Accumulated other comprehensive loss	**(109,271)**	(114,240)
Total stockholders' deficiency	**(212,590)**	(691,639)

Total liabilities and stockholders' deficiency	**367,409**	206,142

See accompanying notes

Destiny Media Technologies Inc.

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

	Three Months Ended February 28, 2006 $	**Three Months Ended February 28, 2005** $ [As restated - note 4]	**Six Months Ended February 28, 2006** $	**Six Months Ended February 28, 2005** $ [As restated - note 4]
Revenue *[note 9]*	**224,745**	227,602	**406,771**	420,425
Operating expenses				
General and administrative	**157,004**	90,621	**262,645**	147,911
Sales and marketing	**115,292**	94,791	**197,494**	208,123
Research and development	**104,521**	141,423	**194,033**	213,001
Amortization	**12,937**	14,439	**25,672**	26,340
	389,754	341,274	**679,844**	595,375
Loss from operations	**(165,009)**	(113,672)	**(273,073)**	(224,950)
Other earnings (expenses)				
Interest and other income	**—**	67	**—**	67
Interest and other expense	**(5,953)**	(1,692)	**(13,015)**	(5,254)
Net loss	**(170,962)**	(115,297)	**(286,088)**	(230,137)
Net loss per common share, basic and diluted	**(0.01)**	(0.01)	**(0.01)**	(0.01)
Weighted average common shares outstanding, basic and diluted	**37,769,226**	36,225,937	**37,207,803**	35,946,112

See accompanying notes

Destiny Media Technologies Inc.

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

	Common stock Shares	**Common stock Amount**	**Additional Paid-in Capital**	**Deficit**	**Accumulated Other Comprehensive Loss**	**Total Stockholders' Deficiency**
	#	$	$	$	$	$
Balance, August 31, 2005	36,434,223	36,436	4,022,123	(4,635,958)	(114,240)	(691,639)
Net loss	—	—	—	(286,088)	—	(286,088)
Foreign currency translation loss	—	—	—	—	4,969	4,969
Comprehensive loss						(281,119)
Common stock issued for services rendered	120,000	120	23,880	—	—	24,000
Common stock issued on options exercised	821,000	821	136,079	—	—	136,900
Common stock issue on extinguishment of loan	1,350,000	1,350	268,650	—	—	270,000
Common stock issued through private placement	1,620,000	1,500	298,500	—	—	300,000
Stock based compensation - non-employees	—	—	29,268	—	—	29,268
Balance, February 28, 2006	40,345,223	40,227	4,778,500	(4,922,046)	(109,271)	(212,590)

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in United States dollars)
Unaudited

	Six Months Ended February 28, 2006 $	Six Months Ended February 28, 2005 $ [As restated - note 4]
OPERATING ACTIVITIES		
Net loss	**(286,088)**	(230,137)
Items not involving cash:		
Amortization	**25,672**	26,340
Amortization of deferred lease inducement	**(13,850)**	(10,718)
Stock-based compensation - non-employees	**29,268**	4,214
Common stock issued for services rendered	**24,000**	—
Changes in non-cash working capital:		
Accounts and other receivables	**(33,522)**	(18,825)
Inventory	**657**	1,036
Short term investments	—	9,275
Prepaid expenses	**(4,780)**	16,075
Accounts payable and accrued liabilities	**(46,412)**	(136,905)
Deferred revenue	**(29,514)**	1,555
Net cash used in operating activities	**(334,569)**	(338,090)
INVESTING ACTIVITIES		
Purchase of equipment	—	(4,251)
Net cash used in investing activities	—	(4,251)
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	**300,000**	269,801
Proceeds from exercise of stock options	**136,900**	—
Deposits on shares issuable	**68,150**	4,000
Advances (repayments) of shareholder loans	**(54,236)**	47,640
Net cash provided by financing activities	**450,814**	321,441
Effect of foreign exchange rate changes on cash	**25,399**	5,528
Net increase (decrease) in cash	**141,644**	(15,372)
Cash, beginning of period	**30,576**	17,523
Cash, end of period	**172,220**	2,151
Supplementary disclosure		
Cash paid for interest	**13,015**	5,254

Shareholder loans extinguished with common stock issuable	**270,000**	—

See accompanying notes

Destiny Media Technologies Inc.

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

Three and six months ended February 28, 2006 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 and six month periods ended February 28, 2006 are not necessarily indicative of the results that may be expected for the year ended August 31, 2006.

The balance sheet at August 31, 2005 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, 2005.

3. GOING CONCERN UNCERTAINTY

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

Destiny Media Technologies Inc.

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

Three and six months ended February 28, 2006 Unaudited

3. GOING CONCERN UNCERTAINTY (cont'd.)

The Company incurred a net loss of $286,088 for the six months ended February 28, 2006 [six months ended February 28, 2005 - $230,137] and as at February 28, 2006 has incurred cumulative losses of $4,922,046, has a working capital deficiency of $168,936 and has a stockholders' deficiency of $212,590 that raises substantial doubt about its ability to continue as a going concern. Management has been able, thus far, to finance the operations through a series of equity financings and shareholder loans. Management expects to manage operating costs as cash is available through operating and financing activities. 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 in substantial doubt and dependent upon achieving a profitable level of operations and on the ability of the Company to obtain necessary financing to fund ongoing operations. 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. RESTATEMENT OF COMPARATIVE INTERIM FINANCIAL STATEMENTS

In connection with its preparation of the consolidated financial statements for the fiscal year ended August 31, 2005, management of the Company determined that the previously issued interim financial statements contained in the Company's Quarterly Reports on Form 10-QSB for the quarters ended November 30, 2004, February 28, 2005 and May 31, 2005 should be restated to correct errors in those financial statements for the inappropriate capitalization of software development costs which occurred after the product was released to a customer.

Destiny Media Technologies Inc.

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

Three and six months ended February 28, 2006 Unaudited

4. RESTATEMENT OF COMPARATIVE INTERIM FINANCIAL STATEMENTS (cont'd.)

The following table summarizes the effect of the restatement on the comparative three and six months period ending February 28, 2005:

	Three Months Ended February 28, 2005		Six Months Ended February 28, 2005	
	As Reported $	**As Restated** $	**As Reported** $	**As Restated** $
Consolidated Statement of Operations				
Research and development	116,417	141,423	175,485	213,001
Depreciation	17,577	14,439	30,172	26,340
Net Loss	(93,429)	(115,297)	(196,453)	(230,137)
Net loss per common share, basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)
Comprehensive loss	(82,620)	(103,706)	(213,613)	(247,094)
Consolidated Statement of Cash Flows				
Net cash used in operating activities	(145,741)	(170,747)	(300,574)	(338,090)
Net cash used in investing activities	(25,959)	(953)	(41,767)	(4,251)

5. SHAREHOLDER LOANS PAYABLE

	February 28, 2006 $	**August 31, 2005** $
Loans payable, due to shareholders, unsecured, due on demand, non-interest bearing	**23,630**	328,357
Loans payable, due to shareholder, unsecured, due on demand, interest bearing at 18.9%	—	9,416
	23,630	337,773

On November 23, 2005, $270,000 of non-interest bearing shareholder loans were extinguished by the issuance of $1,350,000 common shares with a fair value of $270,000.

Destiny Media Technologies Inc.

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

Three and six months ended February 28, 2006 Unaudited

6. OBLIGATION FOR SHARE SETTLEMENT

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

7. SHARE CAPITAL

[a] Common shares issued

During the six months ended, the Company issued 120,000 common shares for services rendered with a fair market value of $24,000, 1,350,000 common shares in settlement of a shareholder loan with a fair market value of $270,000, 821,000 common shares for proceeds of $136,900 pursuant to the exercise of stock options, and 1,620,000 common shares for proceeds of $300,000 in connection with a private placement. The private placement included an 8% finders fee which represents 120,000 of the 1,620,000 common shares. The private placement also included the issuance of 1,500,000 warrants exercisable into common shares at $0.25 expiring August 24, 2007.

Deposits on shares issuable include $68,150 of proceeds collected for the pending issuance of 321,000 common shares not yet issued by the Company’s transfer agent as of February 28, 2006.

[b] Stock option plan

Pursuant to a stock option plan amended March 29, 2004, the Company has reserved 3,750,000 common shares for future issuance under its stock option plan. The options generally vest over a range of periods from the date of grant, some are immediate, others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

Destiny Media Technologies Inc.

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

Three and six months ended February 28, 2006 Unaudited

7. SHARE CAPITAL (cont'd.)

Stock option activity is presented below:

	Shares Available for Grant #	Number of Options #	Weighted Average Exercise Price $
Outstanding, August 31, 2005	465,375	2,104,000	0.38
Granted	(1,042,000)	1,042,000	0.22
Exercised	—	(821,000)	0.17
Forfeited	600,000	(600,000)	0.43
Outstanding, February 28, 2005	23,375	1,725,000	0.36

Of the total options outstanding at February 28, 2006, 1,130,000 [August 31, 2005 - 1,630,000] were granted to employees and 595,000 [August 31, 2005 - 474,000] were granted to non-employees of the Company. The compensation expense related to options granted to non-employees was $22,925 and $29,968 for the three and six months ending February 28, 2006 respectively [three and six months ending February 28, 2005 - $4,214].

[c] Pro-forma disclosure of stock based compensation

Pro forma information regarding results of operations and earnings (loss) per share is required by SFAS 123, as amended by SFAS 148, for stock-based awards to employees as if the Company had accounted for such awards using the fair value method.

Destiny Media Technologies Inc.

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

Three and six months ended February 28, 2006 — Unaudited

7. SHARE CAPITAL (cont'd.)

For pro-forma purposes, the estimated value of the Company's stock-based awards to employees is amortized over the vesting period of the underlying options. The effect on the Company's net loss and loss per share of applying FAS 123 to the Company's stock-based awards to employees would approximate the following:

	Three Months Ended February 28,		Six Months Ended February 28	
	2006	**2005**	**2006**	**2005**
	$	$ As restated - note 4]	$	$ [As restated - note 4]
Net loss as reported	**(170,962)**	(115,297)	**(268,088)**	(230,137)
Compensation expense based on fair value method	**(5,628)**	(3,341)	**(11,256)**	(8,267)
Pro-forma net loss	**(176,590)**	(118,638)	**(279,344)**	(238,404)
Net loss per common share, basic and diluted:				
As reported	**(0.01)**	(0.01)	**(0.01)**	(0.01)
Pro-forma	**(0.01)**	(0.01)	**(0.01)**	(0.01)

The fair value of the Company's stock-based awards granted to employees is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended February 28,		Six Months Ended February 28	
	2006	**2005**	**2006**	**2005**
Risk-free interest rate	**-**	5.5%	**5.5%**	5.5%
Volatility	**-**	99%	**97%**	99%
Expected lives	**-**	1.06	**2.42 years**	1.06
Per share weighted - average fair value of stock options granted	**-**	$ 0.09	**$ 0.11**	$ 0.09

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Destiny Media Technologies Inc.

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

Three and six months ended February 28, 2006 Unaudited

8. CONTINGENCIES

[a] A subsidiary of the Company commenced legal proceedings against Impatica.com Inc. ("Impatica") for payment of approximately $512,500 in unpaid technology license fees. It is the Company's position that Impatica repudiated the licensing agreement and that the unpaid license fees totaling $512,500 are a debt owing by Impatica to the Company.

The defendant has denied liability to the Company on the basis that the license agreement was not formalized. The defendant has filed a counterclaim against the Company seeking return of $162,500 advanced to the Company on an alleged "good faith" agreement based on the allegation that the technology did not perform as represented. These funds were recorded as revenues earned in accordance with the Company's revenue recognition policy in fiscal 2001. During April 2006 the parties settled the dispute resulting in the Company paying Impatica $6,600 in order to cover their legal costs. No other amounts were exchanged.

[b] On September 14, 2004, a statement of claim was filed against the Company by its former solicitor for fees and accrued interest of $145,978 CDN relating to legal services provided in connection with a failed transaction in 2001 and other general corporate matters. It is the Company's position that a significant portion of the fees being sought by its former solicitor are unwarranted and that the fees should not be borne by the Company. The Company has engaged legal counsel to defend itself and has launched a counterclaim. The Writ of Summons was filed in the BC Supreme Court on September 14, 2004. As at February 28, 2006 the Company has accrued for the disputed fees, but not the accrued interest and will seek all options available to extinguish the debt. Any adjustments to the amounts recognized will be recorded when determinable.

[c] On July 25, 2005 the Company was issued a letter on behalf of Musicrypt Inc. ("Musicrypt") indicating a possible infringement of a biometric security system patent. The Company has denied any patent infringement and believes the allegations are without merit. On March 7, 2006 the Company filed a statement of claim in the Federal Court of Canada against Musicrypt to assert that the company's technology does not infringe on the stated patent owned by Musicrypt and to further declare the Musicrypt's patent is invalid. Management does not believe that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

[d] The total accounts payable of $205,310 includes approximately $200,000 of amounts the company has disputed. Management plans to resolve these balances in the current year, however the outcome of these negotiations is not determinable.

Destiny Media Technologies Inc.

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

Three and six months ended February 28, 2006 Unaudited

9. 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 February 28,		Six Months Ended February 28	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
United States	**164,131**	120,310	**313,385**	224,203
Canada	**30,339**	31,864	**50,361**	60,170
Other	**30,275**	75,428	**43,016**	136,052
Total revenue	**224,745**	227,602	**406,762**	420,425

During the six months ended February 28, 2006, two customers represented 28% of the total revenue balance [February 28, 2005 - no single customer represented more than 10%].

As at February 28, 2006, two customers represented 37% of the trade receivables balance of $82,660 [August 31, 2005 - two customers represented 71%].

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 and six months ended February 28, 2006 Unaudited

10. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued Statement of Financial Accounting Standards 123R "Share-Based Payment," a revision to FAS 123. FAS 123R replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the grant-date fair value of those instruments, with limited exceptions. FAS 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. For small-business filers, FAS 123R will be effective for annual periods beginning after December 15, 2005. The Company expects to adopt FAS 123R on September 1, 2006. As permitted by FAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method. Accordingly, the adoption of FAS 123R's fair value method will have a significant impact on the Company's statement of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of FAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted FAS 123R in prior periods, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma net loss and loss per share in Note 7[c] to these unaudited interim consolidated 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", "pla "Intend", "anticipate", "believe", estimate", "predict", "potential" or "continue", the negative of such terms or other comp 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

Destiny Media Technologies Inc. (the "Company", "Destiny Media" or "we") is a holding company which owns 100% of the outstanding shares of Destiny Software Productions, Inc. Destiny Software Productions, Inc. is the operating company. The "Company", "Destiny" or "we" refers to the consolidated activities of both companies.

The company is the developer and marketer of innovative technologies which facilitate the distribution of digital media content. All four technologies discussed below are commercially mature and ready for market.

Clipstream™	Our Clipstream™ family of software products enables our customers to deliver audio and video streaming media via the Internet without requiring the viewer to install software media players or requiring the customer to deploy server technology.
MPE™	Our MPE™ software is an audio and video media distribution system that enables artists and other media rights owners to securely distribute their media through the Internet. All electronic content is locked to the digital fingerprint of the destination computer. Currently the system is being used to instantly distribute individual songs from various record labels. If the songs are exported to CD, a digital watermark is invisibly embedded into the song, so the originating computer can be identified. Our system supports the distribution of music, but it

	may be adopted to move video, software, research reports, or other electronic media.
RadioDestiny Broadcaster	Our RadioDestiny Broadcaster software enables our customers to broadcast a professional Internet radio station from the customer’s personal computer.
Destiny Media Player	Our Destiny Media Player software enables a customer to listen to MP3 music files and to listen to RadioDestiny™ Internet broadcasts on their personal computer.

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All four technologies are proprietary and were developed by the company.

In October 2004, the company released an adapted version of MPE™ which facilitates the transfer of music from the recording industry to radio stations and trusted users. We have recognized revenue associated with this new version of MPE™ during fiscal 2005 and the first two quarters of Fiscal 2006. We anticipate that revenues will grow significantly as the system gains acceptance by the industry.

Pirate Radio sales are also expected to continue and management is pursuing retail distribution of the Pirate Radio software.

We are a publicly traded company. Our common stock trades on the OTC Bulletin board under the symbol “DSNY” and on the Berlin exchange in Germany under the symbol “DME”.

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

PLAN OF OPERATIONS

During our fiscal year ending August 31, 2006, management will continue to focus on the introduction of our MPE™ digital music distribution system into full time commercial use. We have signed a license agreement with Universal Music Group (“UMG”) and Provident Label Group (“Provident”). UMG and Provident will use the MPE™ system to securely distribute new music tracks to radio and trusted users. We expect to sign additional license agreements with record labels during fiscal 2006 as we increase the exposure of the MPE™ system. We anticipate that our MPE™ technology will be integrated into third party products. We will continue to market the MPE™ digital rights management system to the recording industry.

Historically our largest source of revenue has been our Clipstream™ suite of products. Management believes that our Clipstream™ suite of products has significant advantages over other competitors in the industry. Through increased expenditures on sales and marketing, management anticipates an increase in revenue as awareness of our products expands. We also anticipate the launch of new versions of various products in the Clipstream™ Suite and are currently pursuing opportunities to expand the uses of our technology in association with existing technologies such as Java based cellular phones.

We have signed an agreement to distribute localized version box copies of Clipstream™ and Pirate Radio™ through a reseller in the Japanese market.

We will continue to sell the Pirate Radio suite online and through Amazon.com. We will also market this internet radio broadcast system to private radio networks and retail channels.

OPERATING RESULTS

February 28, 2006

OPERATING RESULTS

Revenue

Revenue for the six months ending February 28, 2006 has decreased marginally over the same period in the prior fiscal year. Sales of Clipstream™ have declined over the same period last year while our MPE™ technology has offset that decrease.

Revenue associated with our Clipstream ™ suite of products continues to represent the majority our sales at approximately 58% for the six months just ended while revenue associated with our MPE™ technology will represent a significant growth area.

Operating Expenses

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

General and administrative (unaudited)	**Feb. 28, 2006** (6 months) **$**	**Feb. 28, 2005** (6 months) **$**	**$ Change**
Wages and benefits	85,645	85,692	(47)
Consulting	6,545	1,149	5,396
Rent	14,815	13,166	1,649
Telecommunications	9,415	5,284	4,131
Bad debt	720	13,179	(12,459)
Office and miscellaneous	68,874	26,074	42,800
Professional fees	76,631	53,367	23,264
	262,645	197,911	64,734

General and administrative expenses increased to $262,645 for the six months ended February 28, 2006 from $197,911 for the same period in 2005. The increase in office and miscellaneous expense is due in part to non-cash stock compensation expenses, and foreign exchange losses.

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising, promotional fees and travel costs.

Sales and marketing (unaudited)	**Feb. 28, 2006** (6 months) $	**Feb. 28, 2005** (6 months) As restated $	**$ Change**
Wages and benefits	117,948	123,224	(5,276)
Consulting	6,545	1,149	5,396
Rent	14,815	13,166	1,649
Telecommunications	9,415	5,284	4,131
Meals and entertainment	-	1,385	(1,385)
Travel	3,220	11,871	(8,651)
Advertising and marketing	45,551	52,044	(6,493)
	197,494	208,123	(10,629)

Sales and marketing expenses decreased to $197,494 for the six months ended February 28, 2006 from $208,123 for the same period in 2005. The decrease in salaries and wages corresponds to a decline in commission costs. The decrease in advertising and marketing is due to a television campaign that was run at this time in 2005.

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment

Research and development (unaudited)	**Feb. 28, 2006** (6 months) $	**Feb. 28, 2005** (6 months) As restated $	**$ Change**
Wages and benefits	142,743	171,011	(28,268)
Consulting	10,909	4,214	6,695
Rent	24,691	26,906	(2,215)
Telecommunications	15,691	10,870	4,821
Repairs and maintenance	-	-	-
	194,033	213,001	(18,967)

Research and development expenses decreased to $194,033 for the six months ended February 28, 2006 from $213,001 for the same period in 2005.

Amortization (unaudited)	**Feb. 28, 2006** (6 months) $	**Feb. 28, 2005** (6 months) As restated $	**$ Change**
Amortization	25,672	26,340	668

Interest and other charges

Interest and other charges increased to $13,015 from $1,692 over the same period in the prior year as a result of higher balances on interest bearing credit facilities such as credit cards and shareholder loans.

Net Loss

Loss from operations for the quarter ended February 28, 2006 was $170,962 compared to $115,297 for same quarter ending February 28, 2005.

Revenue associated with MPE™ has begun to grow but is still at preliminary levels and was insufficient to generate a positive net income for the period.

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $172,220 as at February 28, 2006 compared to cash of $30,576 as at August 31, 2005. We had a working capital deficiency of $168,936 as at February 28, 2006 compared to $657,601 as at August 31, 2005. We had a shareholders' deficiency of $212,590 as at February 28, 2006 compared to shareholders' deficiency of $691,639 as at August 31, 2005.

CASHFLOWS

Operating

Net cash used in operating activities decreased to $334,579 for the six months ending February 28, 2006, compared to $338,090 for the six months ended February 28, 2005.

Investing

Net cash used in investing activities decreased to $nil during the quarter ended February 28, 2006, as compared with $4,251 of investing activities for the same quarter in 2005.

Financing

Net cash provided from financing activities increased to $450,814 during the quarter ended February 28, 2006, as compared to $321,411 over the same period in the prior year. On November 23, 2005, $270,000 of shareholder loans were extinguished by the agreement to issue 1,350,000 common shares with a fair value of $270,000. Also, the company received $155,050 of proceeds from the exercise of 200,000 stock options, of which $18,150 of common shares remain issuable at the February 28, 2006. Also during the quarter the company received $350,000 in a private placement, of which $50,000 of common shares remains issuable at February 28, 2006.

Going Concern

We have incurred recurring losses from operations and we have a working capital deficiency and a shareholder's equity deficiency. As a result, substantial doubt exists about the company's ability to continue as a going concern. Our operating losses to date have been primarily financed by equity transactions and shareholder loans. Depending on our ability to continue to grow sales and related cash flows, we may need additional capital through public or private financings that may not be available on reasonable terms. Accordingly, we may require the continued financial support from our shareholders and creditors until we are able to generate sufficient cash flows from operations on a sustained basis. There can be no assurances that we will be successful. If we are not, we will be required to reduce operations or liquidate assets. Our consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern. Our independent auditors have referred to the substantial doubt about our ability to continue as a going concern in their audit report on our financial statements included with our Annual Report on Form 10-KSB for our fiscal year ended August 31, 2005.

RESTATEMENT OF COMPARATIVE INTERIM FINANCIAL STATEMENTS

In connection with its preparation of the consolidated financial statements for the fiscal year ended August 31, 2005, management of the Company determined that the previously issued interim financial statements contained in the Company's Quarterly Reports on Form 10-QSB for the quarters ended November 30, 2004, February 28, 2005 and May 31, 2005 should be restated to correct errors in those financial statements for the inappropriate capitalization of software development costs which occurred after the product was released to a customer.

The following table summarizes the effect of the restatement on the comparative six month period ending February 28, 2005:

	Six months ending February 28, 2005	
	As Reported $	As Restated $
Consolidated Statement of Operations		
Research and development	175,485	213,001
Depreciation	30,172	26,340
Net Loss	(196,453)	(230,137)
Net loss per common share, basic and diluted	(0.01)	(0.01)
Comprehensive loss	(213,613)	(247,094)
Consolidated Statement of Cash Flows		
Net cash used in operating activities	(300,574)	(338,090)
Net cash used in investing activities	(41,767)	(4,251)

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.

- Costs incurred internally to develop computer software products and the costs to acquire externally developed software products (which have no alternative future use) to be sold, leased or otherwise marketed are charged to expense until the technological feasibility of the product has been established. After technological feasibility is established and until the product is available for general release, software development, product enhancements and acquisition costs are capitalized and amortized on a product-by-product basis.

- We account for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) and comply with the disclosure provisions of Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“FAS 123”) as amended by Statement of Financial Accounting Standards No. 148 “Accounting for Stock-Based Compensation Transition and Disclosure - an amendment of FASB Statement No. 123". The pro forma disclosure of stock-based compensation is included in Note 7(c) our unaudited interim financial statements. Under APB 25, compensation expense for employees is based on the difference between the fair value of our stock and the exercise price if any, on the date of the grant. We account for stock issued to non-employees at fair value in accordance with FAS 123. We use the Black-Scholes option pricing model to determine the fair value of stock options granted to non-employees.

ITEM 3. CONTROLS AND PROCEDURES.

As required by Rule 13a-15 under the Exchange Act, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the period covered by this quarterly report, being May 31, 2005. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's chief financial officer and chief executive officer. Based upon that evaluation, our company's chief financial officer and chief executive officer concluded that our company's disclosure controls and procedures are effective. There have been no significant changes in our company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's 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 company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's president and chief executive officer as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On March 7, 2006 we filed a Statement of Claim in the Federal Court of Canada against Musicrypt Inc. to assert that our MPE system, as marketed under Promo Only MPE, does not infringe on Canadian Patent No. 2,407,774, owned by Musicrypt, Inc. (MCT-TSX). The action commenced by us also seeks a declaration that this patent is invalid.

The were no material developments in any other legal proceedings to which we are a party, as disclosed in our Annual Report on Form 10-KSB for the year ended August 31, 2005, during the quarter ended February 28, 2006.

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

During our fiscal quarter ended February 28, 2006, the Company issued 1,620,000 common shares for proceeds of $300,000 in connection with a private placement. The private placement included an 8% finders fee which represents 120,000 of the 1,620,000 common shares. The private placement also included the issuance of 1,500,000 warrants exercisable into common shares at $0.25 expiring August 24, 2007.

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 February 28, 2006.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) **Exhibits.**

EXHIBIT NUMBER	DESCRIPTION
31	Certification 302 of Steve Vestergaard, Chief Executive Officer and Chief Financial Officer (1)
32	Certification 906 of Steve Vestergaard, Chief Executive Officer and Chief Financial Officer (1)

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

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

No reports on Form 8-K were filed during the quarter ended February 28, 2006.

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:

Steven Vestergaard, Chief Executive Officer
and Chief Financial Officer