

DESTINY MEDIA TECHNOLOGIES INC  
Form 10QSB  
July 14, 2006

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

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended May 31, 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**

(State or other jurisdiction of  
incorporation or organization)

**84-1516745**

(IRS Employer Identification No.)

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

(Address of Principal Executive Offices)

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

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

Yes [  ]      No [  ]

State the number of shares outstanding of each of the issuer's classes of common stock, as of  
the latest practicable date: **40,936,223 Shares of \$0.001 par value common stock  
outstanding as of May 31, 2006.**

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 and nine months ended May 31, 2006

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## Destiny Media Technologies Inc.

**CONSOLIDATED BALANCE SHEETS**

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

As at

	<b>May 31, 2006</b>	<b>August 31, 2005</b>
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	42,271	30,576
Accounts and other receivables, net of allowance for doubtful accounts of \$776 [2005 - \$7,000] [note 9]	149,089	46,437
Inventory	1,364	2,246
Prepaid expenses	9,072	2,327
<b>Total current assets</b>	<b>201,796</b>	<b>81,586</b>
Software development costs, net of accumulated amortization of \$54,354 [2005 - \$18,890]	38,823	58,693
Property and equipment, net of accumulated amortization of \$251,499 [2005 - \$216,202]	68,195	65,863
<b>Total assets</b>	<b>308,814</b>	<b>206,142</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIENCY</b>		
<b>Current</b>		
Accounts payable [note 8(d)]	142,979	277,512
Accrued liabilities	119,266	91,573
Shareholder loans payable [note 5]	-	337,773
Deferred revenue	30,082	32,329
<b>Total current liabilities</b>	<b>292,327</b>	<b>739,187</b>
Deferred leasehold inducements, net of accumulated amortization of \$43,914 [2005 - \$22,104]	41,416	58,594
Obligation for share settlement [note 6]	100,000	100,000
<b>Total liabilities</b>	<b>433,743</b>	<b>897,781</b>
Commitments and contingencies [note 8]		
<b>Stockholders deficiency [note 7]</b>		
Common stock, par value \$0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 40,936,223 shares		
August 31, 2005 36,434,223 shares]	40,938	36,436
Issued and held for settlement: 133,333 shares		
Additional paid-capital	4,892,063	4,022,123
Deficit	(4,950,483)	(4,635,958)
Accumulated other comprehensive loss	(107,447)	(114,240)
<b>Total stockholders deficiency</b>	<b>(124,929)</b>	<b>(691,639)</b>

<b>Total liabilities and stockholders</b>	<b>deficiency</b>	308,814	206,142
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*See accompanying notes*

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## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENT OF OPERATIONS**

(Expressed in United States dollars)

Unaudited

	<b>Three Months Ended May 31, 2006</b>	<b>Three Months Ended May 31, 2005</b>	<b>Nine Months Ended May 31, 2006</b>	<b>Nine Months Ended May 31, 2005</b>
	\$	\$	\$	\$
		[As restated - note 4]		[As restated - note 4]
<b>Revenue</b> <i>[note 9]</i>	<b>278,520</b>	154,678	<b>685,291</b>	575,103
<b>Operating expenses</b>				
General and administrative	<b>122,692</b>	101,187	<b>385,337</b>	299,098
Sales and marketing	<b>132,996</b>	86,148	<b>330,490</b>	294,271
Research and development	<b>89,649</b>	101,536	<b>283,682</b>	314,537
Amortization	<b>14,212</b>	15,181	<b>39,884</b>	41,521
	<b>359,549</b>	304,052	<b>1,039,393</b>	949,427
Loss from operations	<b>(81,029)</b>	(149,374)	<b>(354,102)</b>	(374,324)
<b>Other earnings (expenses)</b>				
Gain on settlement of accounts payable <i>[note 8(d)]</i>	<b>56,965</b>		<b>56,965</b>	
Interest and other expense	<b>(4,373)</b>	(2,957)	<b>(17,388)</b>	(8,144)
<b>Net loss</b>	<b>(28,437)</b>	(152,331)	<b>(314,525)</b>	(382,468)
<b>Net loss per common share, basic and diluted</b>	<b>(0.01)</b>	(0.01)	<b>(0.01)</b>	(0.01)
<b>Weighted average common shares outstanding, basic and diluted</b>	<b>40,753,712</b>	36,381,723	<b>38,402,761</b>	35,866,274

*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 \$
<b>Balance, August 31, 2005</b>	36,434,223	36,436	4,022,123	(4,635,958)	(114,240)	(691,639)
Net loss				(314,525)		(314,525)
Foreign currency translation loss					6,793	6,793
						(307,732)
Comprehensive loss						
Common stock issued for services rendered	120,000	120	23,880			24,000
Common stock issued on options exercised	992,000	992	166,558			167,550
Common stock issue on extinguishment of loan	1,500,000	1,500	298,500			300,000
Common stock issued through private placement	1,890,000	1,890	348,110			350,000
Stock based compensation - non-employees			32,892			32,892
<b>Balance, May 31, 2006</b>	40,936,223	40,938	4,892,063	(4,950,483)	(107,447)	(124,929)

*See accompanying notes*

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

	<b>Nine Months Ended May 31, 2006 \$</b>	<b>Nine Months Ended May 31, 2005 \$</b>
		[As restated - note 4]
<b>OPERATING ACTIVITIES</b>		
Net loss	(314,525)	(382,468)
Items not involving cash:		
Amortization	39,884	41,521
Amortization of deferred lease inducement	(20,728)	(15,953)
Stock-based compensation - non-employees	32,892	10,535
Common stock issued for services rendered	24,000	
Changes in non-cash working capital:		
Accounts and other receivables	(94,217)	59,442
Inventory	1,007	1,339
Short term investments		9,204
Prepaid expenses	(6,245)	17,789
Accounts payable and accrued liabilities	(98,242)	(171,545)
Deferred revenue	(4,553)	(14,733)
<b>Net cash used in operating activities</b>	<b>(440,727)</b>	<b>(444,869)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(14,736)	(6,723)
<b>Net cash used in investing activities</b>	<b>(14,736)</b>	<b>(6,723)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	350,000	
Proceeds from exercise of stock options	167,550	293,177
Advances (repayments) of shareholder loans	(76,696)	138,330
<b>Net cash provided by financing activities</b>	<b>440,854</b>	<b>431,507</b>
Effect of foreign exchange rate changes on cash	26,304	3,226
<b>Net increase (decrease) in cash</b>	<b>11,695</b>	<b>(16,859)</b>
Cash, beginning of period	30,576	17,523
<b>Cash, end of period</b>	<b>42,271</b>	<b>664</b>
<b>Supplementary disclosure</b>		
Cash paid for interest	5,211	5,254
Shareholder loans extinguished with common stock	270,000	
Accounts payable extinguished with common stock	30,000	
<i>See accompanying notes</i>		



**Destiny Media Technologies Inc.**

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

Three and Nine months ended May 31, 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 nine month periods ended May 31, 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 Nine months ended May 31, 2006

Unaudited

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

The Company incurred a net loss of \$314,525 for the nine months ended May 31, 2006 [nine months ended May 31, 2005 - \$382,468] and as at May 31, 2006 has incurred cumulative losses of \$4,950,483, has a working capital deficiency of \$90,531 and has a stockholders' deficiency of \$124,929 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 Nine months ended May 31, 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 nine months period ending May 31, 2005:

	Three Months Ended May 31, 2005		Nine Months Ended May 31, 2005	
	As Reported \$	As Restated \$	As Reported \$	As Restated \$
<b>Consolidated Statement of Operations</b>				
Research and development	88,782	101,536	264,267	314,537
Depreciation	19,341	15,181	49,513	41,521
Net Loss	(142,737)	(152,331)	(340,190)	(382,468)
<b>Net loss per common share, basic and diluted</b>				
	(0.01)	(0.01)	(0.01)	(0.01)
Comprehensive loss			(351,950)	(393,565)
<b>Consolidated Statement of Cash Flows</b>				
Net cash used in operating activities			(394,599)	(444,869)
Net cash used in investing activities			(56,993)	(6,723)

**5. SHAREHOLDER LOANS PAYABLE**

	May 31, 2006 \$	August 31, 2005 \$
Loans payable, due to shareholders, unsecured, due on demand, non-interest bearing		328,357
Loans payable, due to shareholder, unsecured, due on demand, interest bearing at 18.9%		9,416
		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 Nine months ended May 31, 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 nine 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, 150,000 common shares in settlement of an advance from our marketing representative with a fair market value of \$30,000, 992,000 common shares for proceeds of \$167,550 pursuant to the exercise of stock options, and 1,890,000 common shares for proceeds of \$350,000 in connection with a private placement. The private placement included an 8% finders fee which represents 140,000 of the 1,890,000 common shares. The private placement also included the issuance of 1,750,000 warrants exercisable into common shares at \$0.25 expiring August 24, 2007.

**[b] Stock option plan**

Pursuant to a stock option plans amended March 29, 2004, and April 26, 2006, the Company has reserved 6,250,000 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 Nine months ended May 31, 2006

Unaudited

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

Stock option activity is presented below:

	<b>Shares Available for Grant #</b>	<b>Number of Options #</b>	<b>Weighted Average Exercise Price \$</b>
<b>Outstanding, August 31, 2005</b>	465,375	2,104,000	0.38
Additional allotment	2,500,000		
Granted	(1,042,000)	1,042,000	0.22
Exercised		(992,000)	0.17
Forfeited	860,000	(860,000)	0.43
<b>Outstanding, May 31, 2006</b>	2,783,375	1,294,000	0.37

Of the total options outstanding at May 31, 2006, 920,000 [August 31, 2005 1,630,000] were granted to employees and 374,000 [August 31, 2005 474,000] were granted to non-employees of the Company. The compensation expense related to options granted to non-employees was \$3,624 and \$32,892 for the three and nine months ending May 31, 2006 respectively [three and nine months ending May 31, 2005 \$4,214 and \$10,535 respectively].

**[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 Nine months ended May 31, 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:

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	\$	\$ As restated - note 4]	\$	\$ [As restated - note 4]
Net loss as reported	<b>(28,437)</b>	(152,331)	<b>(314,525)</b>	(382,468)
Compensation expense based on fair value method	<b>(5,628)</b>	(4,926)	<b>(16,884)</b>	(8,267)
Pro-forma net loss	<b>(34,065)</b>	(157,257)	<b>(331,409)</b>	(390,735)