

DESTINY MEDIA TECHNOLOGIES INC
Form 10QSB
January 17, 2006

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 November 30, 2005

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:
36,654,223 Shares of \$0.001 par value common stock outstanding as of November 30, 2005.

Transitional small business disclosure format (check one):

Yes No

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

Consolidated Financial Statements

Destiny Media Technologies Inc.
Three months ended November 30, 2005
(Unaudited)

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Destiny Media Technologies Inc.

Consolidated Balance Sheets

(Expressed in United States dollars)

(Unaudited)

(See Note 3 - Going Concern Uncertainty)

| | November 30, 2005 | August 31, 2005 |
|---|----------------------|--------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 25,094 | 30,576 |
| Accounts and other receivables, net of allowance for doubtful accounts of \$7,000 [2005 - \$7,000] [note 9] | 40,242 | 46,437 |
| Inventory | 1,959 | 2,246 |
| Prepaid expenses | — | 2,327 |
| Total current assets | 67,295 | 81,586 |
| Software development costs, net of accumulated amortization of \$37,556 [2005 - \$29,346] | 52,075 | 58,693 |
| Property and equipment, net of accumulated amortization of \$238,481 [2005 - \$216,202] | 61,699 | 65,863 |
| Total assets | 181,069 | 206,142 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current | | |
| Accounts payable | 275,013 | 277,512 |
| Accrued liabilities | 111,378 | 91,573 |
| Shareholder loans payable [note 5] | 87,912 | 337,773 |
| Deferred revenue | 46,701 | 32,329 |
| Total current liabilities | 521,004 | 739,187 |
| Deferred leasehold inducements, net of accumulated amortization of \$29,379 [2005 - \$22,104] | 52,840 | 58,594 |
| Obligation for share settlement [note 6] | 100,000 | 100,000 |
| Total liabilities | 673,844 | 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: 36,654,223 shares | | |
| August 31, 2005 - 36,434,223 shares] | 36,656 | 36,436 |
| Issued and held for settlement: 133,333 shares | | |
| Additional paid-capital | 4,072,246 | 4,022,123 |
| Stock issuable [note 5] | 270,000 | — |
| Deficit | (4,751,094) | (4,635,958) |
| Accumulated other comprehensive loss | (120,583) | (114,240) |
| Total stockholders' deficiency | (492,775) | (691,639) |

| | | |
|---|----------------|---------|
| Total liabilities and stockholders' deficiency | 181,069 | 206,142 |
|---|----------------|---------|

See accompanying notes

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Destiny Media Technologies Inc.

Consolidated Statements of Operations
(Unaudited)
(Expressed in United States dollars)

| | Three Months Ended November 30, 2005 | Three Months Ended November 30, 2004 (As restated-note 4) |
|--|---|--|
| | \$ | \$ |
| Revenue [note 9] | 182,017 | 192,823 |
| Operating expenses | | |
| General and administrative | 105,641 | 107,290 |
| Sales and marketing | 82,202 | 113,332 |
| Research and development | 89,513 | 71,578 |
| Amortization | 12,735 | 11,901 |
| | 290,091 | 304,101 |
| Loss from operations | (108,074) | (111,278) |
| Other earnings (expenses) | | |
| Interest and other expense | (7,062) | (3,562) |
| Net loss | (115,136) | (114,840) |
| Net loss per common share, basic and diluted | (0.00) | (0.00) |
| Weighted average common shares outstanding, basic and diluted | 36,501,915 | 35,859,098 |

See accompanying notes

Destiny Media Technologies Inc.

Consolidated Statements of Change in Stockholders' Deficiency
 Unaudited
 (Expressed in United States dollars)

| | Common stock | | Additional | Stock | Deficit | Accumulated | Total |
|---|--------------|--------|------------|----------|-------------|---------------|---------------|
| | Shares | Amount | paid-in | issuable | | other | stockholders' |
| | # | \$ | capital | \$ | \$ | comprehensive | loss |
| | | | \$ | | | loss | deficiency |
| | | | | | | \$ | \$ |
| Balance, August 31, 2005 | 36,434,223 | 36,436 | 4,022,123 | — | (4,635,958) | (114,240) | (691,639) |
| Net loss | — | — | — | — | (115,136) | — | (115,136) |
| Foreign currency translation loss | — | — | — | — | — | (6,343) | (6,343) |
| Comprehensive loss | — | — | — | — | — | — | (121,479) |
| Common stock issuable | — | — | — | 270,000 | — | — | 270,000 |
| Common stock issued for services rendered | 20,000 | 20 | 3,980 | — | — | — | 4,000 |
| Common stock issued on options exercised | 200,000 | 200 | 39,800 | — | — | — | 40,000 |
| Stock based compensation - non-employees | — | — | 6,343 | — | — | — | 6,343 |
| Balance, November 30, 2005 | 36,654,223 | 36,656 | 4,072,246 | 270,000 | (4,751,094) | (120,583) | (492,775) |

See accompanying notes

Destiny Media Technologies Inc.

Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in United States dollars)

| | Three months Ended November 30, 2005 | Three months Ended November 30, 2004 (As restated-note 4) |
|---|---|--|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss | (115,136) | (114,840) |
| Items not involving cash: | | |
| Amortization | 12,735 | 11,901 |
| Amortization of deferred lease inducement | (6,790) | (5,277) |
| Shares issued for services rendered | 4,000 | — |
| Stock-based compensation - non-employees | 6,343 | — |
| Changes in non-cash working capital: | | |
| Accounts and other receivables | 7,000 | (688) |
| Inventory | 326 | 774 |
| Prepaid expenses | 2,347 | 7,336 |
| Accounts payable and accrued liabilities | 10,915 | (81,189) |
| Deferred revenue | 13,620 | 14,640 |
| Net cash used in operating activities | (64,640) | (167,343) |
| INVESTING ACTIVITIES | | |
| Purchase of equipment | — | (3,298) |
| Net cash used in investing activities | — | (3,298) |
| FINANCING ACTIVITIES | | |
| Net proceeds on shareholder loans payable | 16,336 | 33,833 |
| Common stock issuable | — | 26,750 |
| Proceeds from exercise of stock options | 40,000 | — |
| Proceeds from issuance of common stock | — | 110,676 |
| Net cash provided by financing activities | 56,336 | 171,259 |
| Effect of foreign exchange rate changes on cash | 2,822 | 7,080 |
| Net increase (decrease) in cash | (5,482) | 618 |
| Cash, beginning of year | 30,576 | 17,523 |
| Cash, end of year | 25,094 | 25,221 |
| Supplementary disclosure | | |
| Cash paid for interest | 2,594 | 3,562 |
| Shareholder loans extinguished with common stock issuable | 270,000 | — |

See accompanying notes

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Destiny Media Technologies Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited)
(Expressed in United States dollars)

Three months ended November 30, 2005

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, 2005 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.

The Company incurred a net loss of \$115,136 for the three months ended November 30, 2005 (November 30, 2004 - \$114,840) and as at November 30, 2005 has incurred cumulative losses of \$4,751,094, and has a working capital deficiency of \$453,709 and has a shareholder's deficiency of \$492,775. These conditions raise substantial doubt about the Company's 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 plans to continue to seek sources of financing on favorable terms; however, there are no assurances that any such financing can be obtained on favorable terms, if at all. Management expects to keep its operating costs to a minimum until cash is available through financing or operating activities. There are no assurances that the Company will be successful in achieving these goals.

Destiny Media Technologies Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited)
(Expressed in United States dollars)

Three months ended November 30, 2005

3. Going Concern Uncertainty (continued):

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.

The following table summarizes the effect of the restatement on the comparative three month period ending November 30, 2004:

| | Three months ending November 30, 2004 | |
|--|--|------------------------|
| | As Reported | As Restated |
| | \$ | \$ |
| Consolidated Statement of Operations | | |
| Research and development | 59,068 | 71,578 |
| Depreciation | 12,595 | 11,901 |
| Net Loss | (103,024) | (114,840) |
| Net loss per common share, basic and diluted | (0.00) | (0.00) |
| Comprehensive loss | (130,993) | (143,388) |
| Consolidated Statement of Cash Flows | | |
| Net cash used in operating activities | (154,833) | (167,343) |
| Net cash used in investing activities | (15,808) | (3,298) |

Destiny Media Technologies Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

(Expressed in United States dollars)

Three months ended November 30, 2005

5. Shareholder Loans Payable:

| | November 30, 2005 | August 31, 2005 |
|---|----------------------|--------------------|
| | \$ | \$ |
| Loans payable, due to shareholders, unsecured, due on demand, non-interest bearing | 80,274 | 328,357 |
| Loans payable, due to shareholder, unsecured, due on demand, interest bearing at 18.9% | 7,638 | 9,416 |
| | 87,912 | 337,773 |

On November 23, 2005, \$270,000 of non-interest bearing shareholder loans were extinguished by the agreement to issue 1,350,000 common shares with a fair value of \$270,000. As at November 30, 2005, the common shares had not been issued from treasury and are presented as stock issuable.

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 quarter, the Company issued 20,000 common shares for services rendered with a fair market value of \$4,000 and issued 200,000 common shares for proceeds of \$40,000 pursuant to an option agreement.

(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
(Unaudited)
(Expressed in United States dollars)

Three months ended November 30, 2005

7. Share Capital (continued):

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 | (250,000) | 250,000 | 0.26 |
| Exercised | — | (200,000) | 0.20 |
| Forfeited | 150,000 | (150,000) | 0.33 |
| Outstanding, November 30, 2005 | 365,375 | 2,004,000 | \$ 0.35 |

Of the total options outstanding at November 30, 2005, 1,530,000 (August 31, 2004 - 1,630,000) were granted to employees and 474,000 (August 31, 2005 - 474,000) were granted to non-employees of the Company. The compensation expense related to options granted to non-employees was \$6,343 for the three months ending November 30, 2005 (November 30, 2004 - \$Nil).

(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.

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 ending November 30, | |
|---|-------------------------------------|-----------|
| | 2005 | 2004 |
| | \$ | \$ |
| Net loss as reported | (115,136) | (114,840) |
| Compensation expense included in net loss | — | — |
| Compensation expense based on fair value method | (5,628) | — |
| Pro-forma net loss | (120,764) | (114,840) |
| Net loss per common share, basic and diluted: | | |
| As reported | (0.00) | (0.00) |

| | | |
|-----------|--------|--------|
| Pro-forma | (0.00) | (0.00) |
|-----------|--------|--------|

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Destiny Media Technologies Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited)
(Expressed in United States dollars)

Three months ended November 30, 2005

7. Share Capital (continued):

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 Ending | |
|--|----------------------------|-------------|
| | November 30, | |
| | 2005 | 2004 |
| Expected dividend yield | — | — |
| Risk-free interest rate | 5.5% | — |
| Volatility | 97% | — |
| Expected lives | 2.42 years | — |
| Per share weighted - average fair value of stock options granted | \$ 0.11 | — |

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. At November 30, 2005 the outcome of this claim and counterclaim is not determinable. As such, no amounts have been accrued at quarter end.

(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 August 31, 2005 and November 30, 2005 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.

Destiny Media Technologies Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited)
(Expressed in United States dollars)

Three months ended November 30, 2005

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 Ending November 30, | |
|----------------------|---|-------------|
| | 2005 | 2004 |
| | \$ | \$ |
| United States | 149,254 | 103,893 |
| Canada | 20,022 | 28,306 |
| Other | 12,741 | 60,624 |
| Total revenue | 182,017 | 192,823 |

During the quarter ended November 30, 2005, one customer represented 15% of the total revenue balance [November 30, 2004 - no single customer represented more than 10%].

As at November 30, 2005, one customer represented 25% of the trade receivables balance of \$40,242 [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.

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. Early adoption is permitted in periods in which financial statements have not yet been issued. 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.

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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", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable 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.

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 begun recognizing revenue associated with this new version of MPE™ during the first three quarters of fiscal 2005 during the pilot phase of implementation. Management anticipates 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.dsnny.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**Three Months Ended November 30, 2005****OPERATING RESULTS****Revenue**

Revenue for the three months ending November 30, 2005 has decreased over the same period in the prior fiscal year by approximately 5%. 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 67% for the quarter just ended while revenue associated with our MPE™ technology will represent a significant growth area. During the quarter ending November 30, 2005, revenues decreased 1% from our 2005 fourth quarter ending August 31, 2005.

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) | Nov. 30, 2005 (3 months) | Nov. 30, 2004 (3 months) | \$ Change |
|---|--------------------------------|--------------------------------|--------------|
| | \$ | \$ | |
| Wages and benefits | 41,479 | 43,554 | (2,075) |
| Consulting | 1,091 | — | 1,091 |
| Rent | 7,200 | 7,226 | (26) |
| Telecommunications | 3,937 | 8,289 | (4,352) |
| Bad debt | 706 | 11,638 | (10,932) |
| Office and miscellaneous | 17,986 | 19,124 | (1,138) |
| Professional fees | 33,242 | 17,459 | 15,783 |
| | 105,641 | 107,290 | (1,649) |

General and administrative expenses decreased to \$105,641 for the three months ended November 30, 2005 from \$107,290 for the same period in 2004.

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) | Nov. 30, 2005 (3 months) | Nov. 30, 2004 (3 months) | \$ Change |
|---|--|--|----------------------------|
| | \$ | \$ | |
| Wages and benefits | 54,970 | 82,684 | (27,714) |
| Consulting | 1,091 | — | 1,091 |
| Rent | 7,200 | 9,635 | (2,435) |
| Telecommunications | 3,937 | 11,052 | (7,115) |
| Meals and entertainment | — | 57 | (57) |
| Travel | 1,785 | 7,815 | (6,030) |
| Advertising and marketing | 13,219 | 2,089 | 11,130 |
| | 82,202 | 113,332 | (31,130) |

Sales and marketing expenses decreased to \$82,202 for the three months ended November 30, 2005 from \$113,332 for the same period in 2004. The increase in advertising and marketing is due to the use of Google Adwords for advertising. The decrease in salaries and wages corresponds to a decline in commission costs.

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) | Nov. 30, 2005 (3 months) As Restated | Nov. 30, 2004 (3 months) As Restated | \$ Change |
|--|---|---|----------------------------|
| | \$ | \$ | |
| Wages and benefits | 69,133 | 53,690 | 15,443 |
| Consulting | 1,818 | — | 1,818 |
| Rent | 12,000 | 8,902 | 3,098 |
| Telecommunications | 6,562 | 8,986 | (2,424) |
| Repairs and maintenance | — | — | — |
| | 89,513 | 71,578 | 17,935 |

Research and development expenses have increased over the same period in the prior year due to the less favorable US dollar exchange rate.

| Amortization (unaudited) | Nov. 30, 2005 (3 months) As Restated | Nov. 30, 2004 (3 months) As Restated | \$ Change |
|------------------------------------|---|---|----------------------------|
| | \$ | \$ | |
| Amortization | 12,735 | 11,901 | 834 |

Interest and other charges

Interest and other charges increased to \$7,062 from \$3,562 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 November 30, 2005 was \$115,136 compared to \$114,840 for the same quarter ending November 30, 2004.

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 \$25,094 as at November 30, 2005 compared to cash of \$30,576 as at August 31, 2005. We had a working capital deficiency of \$453,709 as at November 30, 2005 compared to \$657,601 as at August 31, 2005. We had a shareholders' deficiency of \$492,775 as at November 30, 2005 compared to shareholders' deficiency of \$691,639 as at August 31, 2005.

CASHFLOWS

Operating

Net cash used in operating activities decreased to \$64,640 for the three months ending November 30, 2005, compared to \$167,343 for the three months ended November 30, 2004, primarily as a result of changes in non-cash working capital.

Investing

Net cash used in investing activities decreased to \$nil during the quarter ended November 30, 2005, as compared with \$3,298 of investing activities for the same quarter in 2004.

Financing

Net cash provided from financing activities decreased to \$56,336 during the quarter ended November 30, 2005, as compared to \$171,259 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 \$40,000 of proceeds from the exercise of 200,000 stock options.

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 will need additional capital through public or private financings that may not be available on reasonable terms. Accordingly, we will 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.

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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 three month period ending November 30, 2004:

| | Three months ending November 30, 2004 | |
|--|--|-------------------|
| | As Reported \$ | As Restated \$ |
| Consolidated Statement of Operations | | |
| Research and development | 59,068 | 71,578 |
| Depreciation | 12,595 | 11,901 |
| Net Loss | (103,024) | (114,840) |
| Net loss per common share, basic and diluted | (0.00) | (0.00) |
| Comprehensive loss | (130,993) | (143,388) |
| Consolidated Statement of Cash Flows | | |
| Net cash used in operating activities | (154,833) | (167,343) |
| Net cash used in investing activities | (15,808) | (3,298) |

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.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The were no material developments in any of the 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 November 30, 2005.

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

During our fiscal quarter ended November 30, 2005, there were no sales of securities that were not registered pursuant to the Securities Act of 1933 (the "Securities Act").

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, 2005

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|--|
| <u>31</u> | <u>Certification 302 of Steve Vestergaard, Chief Executive Officer and Chief Financial Officer (1)</u> |
| <u>32</u> | <u>Certification 906 of Steve Vestergaard, Chief Executive Officer and Chief Financial Officer (1)</u> |

(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 November 30, 2005.

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 13, 2006

By: /s/ STEVEN VESTERGAARD

Name: Steven Vestergaard
Title: Chief Executive Officer and Chief Financial
Officer