DESTINY MEDIA TECHNOLOGIES INC
Form 10KSB
December 14, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)
x Annual Report Pursuant To Section 13 Or 15(D) Of The Securities Exchange Act Of 1934

For the fiscal year ended **August 31, 2004**

¨ Transition Report Under Section 13 Or 15(D) Of The Securities Exchange Act Of 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER 000-28259

DESTINY MEDIA TECHNOLOGIES INC.

(Name of small business issuer in its charter)

COLORADO	**84-1516745**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1055 West Hastings Street, Suite 1040 **Vancouver, British Columbia, Canada**	**V6E 2E9**
(Address of principal executive offices)	(Zip Code)

604-609-7736
Issuer's telephone number

Securities registered under Section 12(b) of the Exchange Act:	**NOT APPLIABLE**
Securities registered under Section 12(g) of the Exchange Act:	**COMMON STOCK, PAR VALUE $0.001 PER SHARE**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** x **No** ¨

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ¨

State issuer's revenues for its most recent fiscal year: **$751,914**

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) **$15,170,161 as of December 8,2004**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. **36,119,431 Shares of Common Stock as of December 8, 2004**

Transitional Small Business Disclosure Format (check one): **Yes ¨ No x**

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PART I

FORWARD LOOKING STATEMENTS

The information in this Annual Report on Form 10-KSB 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 Destiny Media'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, including the risks outlined below, and, from time to time, in other reports Destiny Media files with the SEC. These factors may cause Destiny Media's actual results to differ materially from any forward-looking statement. Destiny Media 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.

CURRENCY

All dollar amounts in this Annual Report on Form 10-KSB are presented in United States dollars unless otherwise indicated.

ITEM 1. DESCRIPTION OF BUSINESS.

OVERVIEW

Destiny Media Technologies Inc. is a holding company that 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.

We develop software tools that enable digital content owners to:

A) Stream audio and video content in web pages and emails on a variety of operating systems and on compliant hardware devices.
B) Securely sell digital content online so that it is protected from piracy
C) Securely move digital content from one computer to another through the internet.

The company has developed four proprietary technologies to facilitate the distribution of digital content. All four technologies are commercially mature and ready for market.

1. Clipstream™ is a playerless streaming audio and streaming video technology which enables content owners to embed live and on demand audio and video into websites and emails on a variety of operating systems and compliant hardware devices.
2. MPE™ is a system for a) enabling the secure sale of digital content via peer to peer networks and b) securely moving digital content from one computer to another through the internet. The content is locked to a digital fingerprint of the destination computer. Currently, MPE supports the distribution of music, but it could be adopted to move other content including video, software, electronic books and research reports.
3. The RadioDestiny Broadcaster is a software program that allows users to broadcast live and on demand radio signals from their PC. The signals can be received via Clipstream™ or within the Destiny Media Player product.

4. The Destiny Media Player is a software product that plays most popular digital music formats and which receives the live Radio Destiny internet radio stations.

Clipstream™ licenses and maintenance currently represents approximately 96% of our recognized revenues. The Radio Destiny Broadcaster and Destiny Media Player are sold online under the brand name Pirate Radio. Pirate Radio represents approximately 4% of our recognized revenue.

The original version of MPE™ was developed beginning in 1999 to facilitate sales of music to consumers through peer to peer networks. The MPE™ download was self-executing and included an e-commerce process, a player, album cover graphics, lyrics and links to the artist's website.

The company found it difficult to generate revenues through music sales and marketing of MPE™ was suspended in late 2000.

In early 2003, the company identified an opportunity to adapt the MPE™ technology so that recording companies could move songs securely through the internet. This would provide significant savings to the industry in physical media and delivery costs, while providing a higher level of service.

A new MPE™ system was developed which featured list management, Clipstream™ powered email previews and reporting. This system was launched in October 2003 to the Canadian music industry on a trial basis.

With strong feedback from the recording industry, the MPE™ system was adapted through 2004 to include stronger list management, integrated CD burning, support for other formats and a more functional user interface. The company announced a license agreement with the Universal Music Group in June 2004, which included a requirement for further customization. This customization was completed and the release version of MPE™ was announced subsequent to year end in October 2004.

Revenues from the MPE™ system are transaction based and are billed to the content owners as songs are moved securely to radio stations, music reviewers, buyers, internally and to trusted users and VIP's. These revenues began subsequent to year end and should become significant by mid fiscal 2005 as transactions increase in size and other record labels adopt the system.

In fiscal 2004, work continued on adopting the consumer version of MPE™ for utilization by commercial users including DJ's, restaurants, nightclubs and digital jukeboxes. The company has secured access to a catalogue of mainstream music and expects to launch an online store for commercial users in fiscal 2005.

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.

CORPORATE BACKGROUND

We were incorporated in August 1998 under the laws of the State of Colorado.

We carry out our business operations through our wholly owned subsidiary, Destiny Software Productions, Inc. ("Destiny Software"). Destiny Software is a British Columbia company that was incorporated in 1992.

Our principal executive office is located at #1040-1055 West Hastings Street, Vancouver, British Columbia V6E-2E9. Our telephone number is (604) 609-7736 and our facsimile number is (604) 609-0611.

BUSINESS DEVELOMENT

Destiny Media Technologies, Inc. acquired Destiny Software Productions, Inc. from Mr. Steven Vestergaard, our president and chief executive officer in 1999.

Mr. Vestergaard started the Destiny Software business as a private partnership in January 1991. The business was sold to Destiny Software in 1992. From 1992 until 1995, Destiny Software was involved solely in the development and sale of computer games. Twelve games were developed during this period and were marketed under the brand names of outside publishers, including EA, MGM, Sony and Microleague.

In December 1995, Destiny Software's first Internet radio prototype was developed. This product was released in April 1996 under the brand name Radio Destiny. Destiny Software found that many users had difficulty downloading and installing player and server software. As a consequence of this observation, Destiny Software developed an instant audio play technology branded as Clipstream™ that enables web site owners to upload audio and video media content to a standard web server using the Clipstream™ software and to have the media content play back on almost all Internet browsers without requiring any action on the part of web visitors.

After Destiny Media Technologies, Inc. acquired Destiny Software in 1999, we developed our MPE media distribution software and the Destiny Media Player as a mechanism for securely selling and playing back digital music and internet radio streams via the Internet. However, the advent of free file sharing networks made it difficult for content owners to sell music over the Internet. As a result, we were only able to generate minimal revenues from these software products using a business model based on receiving a portion of music sales.

In the fall of 2001, we determined to refocus our business efforts on selling and developing our Clipstream™ software products. As a result of this determination, we stopped supporting the MPE security system, the Radio Destiny Broadcaster and the Destiny Media Player. Since this time, our revenues have grown on a quarterly basis and we have established strong name brand recognition with customers in various market sectors. Most of our customers have renewed their annual licenses and increased their investment in Clipstream™.

The company has grown and is better able to support more than one product line. We relaunched the Destiny Media Player and the Radio Destiny Broadcaster as the Pirate Radio suite in fiscal 2003 and the release version of MPE™ subsequent to year end.

OUR PRODUCTS

Clipstream™ Suite
http://www.clipstream.com

We have developed a suite of five distinct software products that incorporate our Clipstream™ technology and are marketed under our Clipstream™ brand name:

1. Clipstream™ Audio

2. Clipstream™ Video

3. Clipstream™ Live

4. Clipstream™ Audiomail

5. Clipstream™ IVR Server

Each of our Clipstream™ products is fully developed and is commercially available through our web site at: http://www.clipstream.com. Our Clipstream™ products have been commercially available commencing in 1999.

Clipstream™ enables users to experience internet audio and video directly inside an email or web page. Competing technologies require users to download, install and configure a player. Users that haven't downloaded the player can't access the content. Because the Clipstream™ player is either an Active X control or a Java applet and because these technologies are natively supported by most email and web browser clients, Clipstream™ content will play instantly for 98% of the audience. The content will play directly within an email or web page rather than in a separate window. This makes Clipstream™ uniquely well suited for advertising and high reliability applications such as in military applications. Media companies can take video content intended for television and repurpose it in web pages and emails.

Content is converted into the proprietary patent pending Clipstream™ compression formats using the Clipstream™ encoder software that we provide for free. The content owner purchases a code key from us which enables the content to play. Code keys are limited to a period of time. The code key system is a proprietary system developed by Destiny, which could be sold commercially.

Clipstream™ will work on most Java based computers, set top boxes and wireless devices that have enough CPU and memory to play back the content. In addition, our Clipstream™ software enables streaming media to be delivered to users regardless of the operating system of the user's computer.

Our Clipstream™ software products incorporate the following features that we believe give our products advantages over products offered by competitors:

1. Web pages, e-mails, banner advertisements and other Internet applications that incorporate our Clipstream™ software enable users to play the media instantly without the requirement of an additional player program.

2. Our customers are able to achieve up to a 90% reduction on bandwidth costs for streaming delivered using our products versus competing streaming solutions. This can present a significant savings in server infrastructure as it takes significantly less server hardware to support Clipstream™ than competing solutions.

3. The Clipstream™ software enables streaming through firewalls and proxies that may block competing streaming solutions.

4. The Clipstream™ software is compatible with Flash™, databases as well as non-personal computer devices such as PDA's, wireless and set top boxes that support JAVA.

5. The look and feel can be tightly integrated into a web page and most aspects of the engine can be accessed via Javascript.

6. Our customers do not require a server to deliver pre-recorded media content. Customers can simply use our encoder software to convert their media content into our Clipstream™ format and upload it to their web site with the accompanying applet.

7. We have developed our Clipstream™ software to be as scaleable as possible. A video or audio clip encoded in Clipstream™ is treated like any other element in the web page. It can be served by a standard http server, cache or proxy and can pass seamlessly through a firewall.

8. Corporate environments using our Clipstream™ software have an advantage over player- based solutions as management information systems staff do not have to ensure that players are correctly installed on each machine in their corporate network in order for users to receive audio and video streaming media.

The features and functionality of our Clipstream™ software products are described below:

Clipstream™ Video	Our Clipstream™ Video product enables our customers to deliver streaming of video media via the Internet. This product enables web marketers, advertisers and webmasters to deliver compelling video media to their viewers without the need for special servers, software or programming knowledge. The Clipstream™ Video product also eliminates the requirement of a customer to develop multi- streaming formats to reach the customer's targeted audience.
Clipstream™ Audio	Our Clipstream™ Audio software enables our customers to deliver streaming of audio media via the Internet. This product enables web marketers, advertisers and webmasters to deliver compelling audio media to their viewers without the need for special servers, software or programming knowledge.
Clipstream™ Live	The Clipstream™ Live system enables customers to embed live video into any web delivery method, including web pages, e-mails, advertisements and specific web applications. Our Clipstream™ Live software enables a customer to provide quality streaming of live video using a digital video camera connected to a personal computer with a constant Internet connection. Incoming video is captured by our software operating on the server and is converted into a real- time video stream that enables live broadcasts.
Clipstream™ Audiomail	Clipstream™ AudioMail system allows customers to create a streaming audio message using their telephone and to broadcast this audio message. Once recorded, a customer is able to broadcast their audio message using e-mail or can incorporate the audio message directly into a web site. Once broadcast, the AudioMail message can be played by any Java-enabled e-mail client or web browser. The Clipstream™ AudioMail system is marketed as both a personal and an enterprise software solution.
Clipstream™ IVR	The Clipstream™ IVR Server enables customers to record an audio message via telephone and up-load the message to an e-mail or to broadcast the message to multiple users via e-mail. The Clipstream™ IVR Server is designed to: (i) record audio messages via a telephone capture card using pre-recorded audio prompts; (ii) encode the recorded audio in the Clipstream™ format; (iii) output the Clipstream™ audio files to a specified folder on a network accessible drive; and (iv) instigate an application when new audio files have been saved.

We plan to focus future development of the Clipstream™ products on better supporting alternative ways of accessing the Internet, other than personal computers. In particular, Java based telephones will soon have enough RAM and CPU to play back Clipstream™ content.

Radio Destiny Broadcaster and Destiny Media Player
http://www.pirateradio.com
http://www.stationdirectory.com

The Radio Destiny Broadcaster software enables customers to broadcast a professional Internet radio station from the customer’s personal computer. The customer may broadcast live or from a playlist created by the customer. The only hardware required is a personal computer equipped with a sound card and a reliable Internet connection. When broadcasting in the live mode, the customer simply puts their audio signal into the input of their sound card, configures the options and clicks 'start broadcast' on the Radio Destiny Broadcaster software. When broadcasting in script mode, the customer pre-records a set of audio files, and then specifies a schedule for play back. The customer could spend a couple of hours setting up the broadcasting schedule for the week, then the Radio Destiny Broadcaster software will broadcast the content 24 hours per day, 7 days per week. When deployed, the customer’s Internet radio station is automatically added to the directory of stations at our Radio Destiny web portal. Listeners can receive a Radio Destiny Internet radio broadcast using our Destiny Media Player. The Radio Destiny Broadcaster software has been designed to be consumer friendly and is easy to use.

Our Radio Destiny software has been commercially available since 1996.

We sell licenses for our Radio Destiny Broadcaster software on a commercial basis and a personal use basis. The primary difference between the commercial and personal licenses for the Radio Destiny Broadcaster is the license limitations placed on consumer broadcasters restricting use to non-commercial application.

Our Destiny Media Player software product is a combination MP3/Music player and radio receiver that can be installed on a user’s personal computer. This software features a radio mode and an MP3 mode. In the radio mode, a user is able to listen to radio broadcasts from any of stations on the RadioDestiny Broadcast Network. The Destiny Media Player features a live directory of stations with direct e-mail and web links to these broadcasters. In the MP3 mode, a user can play MP3 files directly from the user’s library of MP3 files. The Destiny Media Player automatically scans the user’s hard drive for existing music files and creates an MP3 library for access by the Destiny Media Player. The Destiny Media Player also features a list of MP3 web sites that allows a user to easily click a link to access MP3 sources. The Destiny Media Player also supports playback of streaming MP3’s, .wav and midi files, as well as music CD’s. The Destiny Media Player is a small, yet powerful, application and can be downloaded from the Internet and can be installed by a user within two minutes.

MPE™
http://www.destinympe.com
The original version of our MPE™ software was developed as a solution to enable artists, media distribution companies and other media rights holders to manage and sell audio and video media files on the Internet. We developed this software with the objective of providing a solution for media rights holders to counter the wide-spread distribution of media files on the Internet that occurs without any payment to the media rights holder. Our software enables a media right holder’s audio or video media to be encoded in our proprietary MPE™ format. The audio or video media can then be posted anywhere and partially previewed in full quality. Consumers are given the opportunity to preview the media and then complete an electronic purchase transaction. The encoded MPE™ media file can be unlocked by the customer once the purchase is complete. The objective of the MPE™ software is to ensure broad distribution of digital files via peer-to-peer systems such as Napster while ensuring that the originating

artist gets paid. Currently, the MPE™ software is limited to self-extracting music files. We believe this software could be modified to support digital distribution of software, movies, electronic books and research reports and other digital file types. We currently are not offering this consumer version of MPE for sale, but plan to in the future as the market for digital music matures.

We have adapted the original version of MPE™ for a business to business model where we charge the recording industry a fee for each song they send to radio stations and trusted users. We created a system that announces the song via a Clipstream™ powered email. Recipients can download the song to an authorized computer and burn the song to a CD. The song is watermarked with a fingerprint that identifies that recipient. The recording industry receives reports back on which stations and recipients downloaded the song. Songs can be locked to a future date, giving the recording industry the ability to coordinate a simultaneous launch to radio.

The system has grown quickly since the October 6, 2004 launch, subsequent to year end. As of November 19, 2004, there are 5,102 unique users from 1,078 recipient companies and 193 tracks have been added to the system by 30 different record labels.

OUR TARGETED MARKETS

Clipstream™

Our targeted market for our Clipstream™ software products include:

A) Advertisers
B) Market Research Companies
C) Military Applications
D) Web Portals
E) Custom Applications where our video is integrated into another software solution
F) Email Marketing
G) Distance Learning
H) Music Previews
I) Online Communities
J) Website navigation
K) Corporate Communications
L) Movie Trailers
M) Corporate Intranets
N) Send to a friend Email Campaigns

PirateRadio

Our PirateRadio™ software bundle is being marketed to the home Internet radio enthusiast that is seeking a means to broadcast their personal radio broadcasts to the world through the Internet. The purchase process has been automated. Purchases are made online via credit card. When the system processes the credit card, a digital version of the software is sent to the consumer automatically. A CD version is then sent by mail.

We also offer a professional version of the software for commercial radio.

We are also offering this product through Amazon.com.

MPE™

We are targeting the five major record labels and the larger independent labels. For the recording industry to pay for the software system, they will need to see strong adoption from radio, so we are targeting radio to create demand.

We are also expecting to sell MPE™ encoded content through an online store and through partnerships with digital jukebox manufacturers to commercial music users.

OUR REVENUE MODEL

Clipstream™ Products

We license our Clipstream™ products to our customers and recognize the revenue in accordance with SOP 97-2 as disclosed to the notes of our financial statements. In addition, we offer annual maintenance contracts whereby service revenues are recognized ratably over the term of the maintenance contract. Other service revenue is recognized at the time services are performed including all custom development work performed and integrated services performed. We also offer “white label” contracts at premium pricing allowing the acquirer to remove visible Clipstream™ branding and potentially incorporating their own branding.

We charge an encode fee and a “cost per thousand impressions” fee to customers who incorporate our Clipstream™ software technology into their e-mail campaigns.

Web advertising requires a fixed set up fee and a license per thousand impressions served.

Our Clipstream Live video server system is priced based on the number of streams as a software license.

We charge web site portals an annual license fee that is based on the number of clips that are used.

We typically charge corporate intranets that have licensed our Clipstream™ software products a fixed annual fee based on the number of employees who will have access to the technology. Usage on the intranet is unlimited.

We offer the software on an annual or unlimited basis. The term of the contract is encoded in the code key we sell. The software will automatically stop playing at the end of this license period. This code key manager was developed by Destiny and is proprietary.

Pirate Radio

We are selling the Pirate Radio software suite that includes both the Destiny Media Player and a personal RadioDestiny Broadcaster license for a one time fee of $39.95 online via our automated e-commerce system.

Our sales representatives are also selling to commercial radio stations for a fixed annual fee.

We own most of the content that is generated in our system. There may be an opportunity in the future to sell the content to entertainment portals or to license the codec to hardware manufacturers. Our website http://www.stationdirectory.com automatically aggregates all currently broadcasting stations on a real time basis.

MPE™

Subsequent to year end, we began to charge based on the number of tracks and the number of recipients.

Our sales of music will be on a per track basis. A royalty will be paid back to the content owners.

OUR MARKETING PLAN

We generate the majority of our software sales through our employee sales network and our reseller network. We employ sales staff in our Vancouver, British Columbia office to market our software products to our current customers and to our targeted potential customers. In addition, we have established a network of over 100 global resellers. We charge our reseller partners an annual partner fee that buys them varying levels of support and service from Destiny Media. In general, a higher level of support and a higher partner fee commitment achieves a higher margin for the partners. Reseller partners receive a direct commission, which varies and is in line with standard software commission rates.

We also market our software products directly from our dedicated websites.

Clipstream™: http://www.clipstream.com
Radio Destiny Broadcaster and Destiny Media Player: http://www.pirateradio.com
MPE™: http://www.destinympe.com

Some MPE™ sales are marketed through our commercial partner, Promo Only.

We undertake various advertising on the Internet, which include the following:

1. We include short advertisements for Clipstream™ on media clips that incorporate our Clipstream™ software.

2. We locate icons on our applets that include links to our Clipstream™ web site when clicked on by a user.

3. We typically require our Clipstream™ customers to add a Clipstream™ link on their web site or e- mail campaign. This ever increasing number of incoming links to the Clipstream™ site increases the rating in the search engines, so that Clipstream™ is more likely to come up first in relevant searches.

4. We advertise through Internet search engines where advertisements can be tied to search works relevant to our products.

5. We actively create viral "send to a friend" Clipstream™ clips that are hosted on our server. We secure content we expect to be passed along and encode it in our format in the form of an email.

We generally do not undertake advertising campaigns, other than outlined above.

We do attend industry trade shows in specific cases where we perceive a marketing opportunity with an adequate return on investment. These trade shows are attended by our sales staff. We generally have determined not to spend significantly on trade booths in most cases as we believe the return on investment isn't sufficiently compelling for our products.

We intend to increase our marketing efforts through the current fiscal year by increasing the number of our direct sales people and by better supporting and training our reseller partners.

OUR BUSINESS OPERATIONS

Our head office and business operations are carried out in leased premises in Vancouver, British Columbia, Canada. We lease 5,734 square feet of office space and we have twelve full time employees. Our employees include our president and chief executive officer, our vice-president of operations, our controller, four direct sales employees, two support personnel and three software developers. We also employ a book keeper and other talent on a part time basis as needed.

We have installed a fiber link to the internet backbone to our head office location. This fiber link provides us with the ability to support our customers with extremely high bandwidth hosting capabilities.

We run our own high end servers, which support dual CPU’s, redundant power supplies, RAID arrays for storage and a real time back up server.

COMPETITION

Our two principal competitors in the development and distribution of streaming media technology are RealNetworks and Microsoft Corporation. Both RealNetworks and Microsoft are substantially larger than we are and have significantly greater financial resources available. Both Microsoft’s and RealNetworks have increased their commitment to and presence in the streaming media industry. This increased commitment has increased and we anticipate will continue to increase the competitive pressure in the overall market for streaming media software. This increased competition could lead to increased pressure to decrease the price of streaming media software. This pressure on price could force us to reduce the price that we are able to charge our customers for our software products.

In addition to Microsoft and RealNetworks, we face increased competition from other companies that are developing and marketing streaming media product offerings. These competitors include Macromedia™, Hello Networks™, Eye Wonder™ and Oplayo™. As more companies enter the market with products and services that compete with the company's players and tools, the competitive landscape could change significantly to the detriment of the Company as consumers are faced with a broader array of products with similar functionality.

Our main competition for broadcasting audio over the internet is the Live 365 Network.

Our main competitor for MPE is Musicrypt.

The factors that impact on our ability to compete in the streaming media technology market include:

(i) the quality and reliability of our software;

(ii) the features of our software for creating, editing and adapting content;

(iii) ease of use and interactive user features of our software;

(iv) scalability and cost of our software per user;

(v) our software pricing and licensing terms;

(vi) the emergence of new and more advanced streaming media formats; and

the compatibility of our software with our customer’s existing network components and software systems.

(vii)

We must continue to innovate and improve the performance of our streaming media software products to compete in the streaming media technology market, to maintain our customer base and to increase our customer base. We anticipate that consolidation will continue in the streaming media industry and related industries such as computer software, media and communications. Consequently, competitors may be acquired by, receive investments from or enter into other commercial relationships with, larger, well-established and well-financed companies. There can be no assurance that we will be able to establish or sustain a leadership position in this market segment. We are committed to working toward market penetration of our brand, products and services, which, as a strategic response to changes in the competitive environment, may require pricing, licensing, service or marketing changes intended to extend our current brand and technology. Price concessions or the emergence of other pricing or distribution strategies by competitors may reduce the prices that we may charge our customers for our software products. In addition, many of our current and potential competitors have greater name recognition, larger overall installed bases, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. These competitive factors may have a material adverse effect on our business, financial condition and results of operations.

TRADEMARKS AND INTELLECTUAL PROPERTY

We have been granted a trademark for Clipstream™ in Canada, Japan and Europe in connection with our software products. In the UK, we believe that an unrelated company called Clipstream Online Video Management (http://clipstream.co.uk/) has been infringing on our trademark. In response to a letter sent to them by Destiny, they have filed invalidity proceedings in Europe. We believe this proceeding will be unsuccessful and trademark protection in the UK will ultimately be granted to us. We are discussing a negotiated resolution to this dispute, although there is no assurance that a satisfactory settlement will be reached.

We have filed for patent protection for the MPE™ distribution system and for the Clipstream™ audio and video codecs. Patent protection is currently pending.

Trademark protection for MPE™ is currently pending.

GOVERNMENT REGULATION

We are not currently subject to direct regulation by any governmental agency other than laws and regulations generally applicable to businesses. It is possible that a number of laws and regulations may be adopted in both the United States and Canada with particular applicability to the Internet. Governments have and may continue to enact legislation applicable to us in areas such as content distribution, performance and copying, other copyright issues, network security, encryption, the use of key escrow data, privacy protection, caching of content by server products, electronic authentication or “digital” signatures, illegal or obscene content, access charges and retransmission activities. The applicability to the Internet of existing laws governing issues such as property ownership, content, taxation, defamation and personal privacy is also uncertain. Export or import restrictions, new legislation or regulation or governmental enforcement of existing regulations may limit the growth of the Internet, increase our costs of doing business or increase its legal exposure.

RISK FACTORS

We face risks in executing our business plan and achieving revenues. The following risks are material risks that we face. We also face the risks identified elsewhere in this Annual Report, including those risks identified under Item 1 – Description of Business, including Competition and Government Regulation, and Item 6 – Management Discussion and Analysis or Plan of Operations. If any of these risks occur, our business and our operating results and financial condition could be seriously harmed.

RISK OF NON-COMPLIANCE WITH THE SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002.

Beginning in Fiscal 2005, Section 404 of the Sarbanes-Oxley Act of 2002 ("the Act") will require the Company to include an internal control report of management in its Annual Report on Form 10-KSB. The internal control report must contain (i) a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting, (ii) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal control over financial reporting, (iii) management's assessment of the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not internal control over financial reporting is effective, and (iv) a statement that the Company's independent auditors have issued an attestation report on management's assessment of internal control over financial reporting.

At the conclusion of the Fiscal 2004 year end audit, the Company’s auditors identified several material weaknesses, potentially jeopardizing our ability to issue an unqualified 302 certification in connection with the 2004 Annual Report filed on Form 10-KSB. Those material weaknesses included corporate governance control issues, revenue internal control issues, payroll internal control issues, and financial reporting internal control issues.

Management acknowledges its responsibility for internal controls over financial reporting and seeks to continually improve those controls. In addition, in order to achieve compliance with Section 404 of the Act within the prescribed period, beginning in early Fiscal 2005, the Company will engage in a process to document and evaluate its internal controls over financial reporting. In this regard, management will dedicate internal resources, engage outside consultants and adopt a detailed work plan to (i) assess and document the adequacy of internal control over financial reporting, (ii) take steps to improve control processes where appropriate, (iii) validate through testing that controls are functioning as documented and (iv) implement a continuous reporting and improvement process for internal control over financial reporting. The Company believes the process commencing in early Fiscal 2005 for documenting, evaluating and monitoring its internal control over financial reporting will be consistent with the objectives of Section 404 of the Act and will ensure that the material weaknesses identified by the auditor during the Fiscal 2004 year end audit will be remediated.

In addition, the Company will have to improve its financial controls as they relate to the material weaknesses as discussed. The Company can provide no assurance as to its, or its independent auditors, conclusions at August 31, 2005 with respect to the effectiveness of its internal control over financial reporting under Section 404 of the Act. The existence of the above factors and circumstances create a risk that the Company, or its independent auditors, will not be able to conclude at August 31, 2005 that the Company's internal controls over financial reporting are effective as required by Section 404 of the Act.

If We Are Unable To Achieve Additional Financing, Then Our Financial Condition And Our Ability To Continue Our Business Operations Will Be Adversely Affected.

We had a working capital deficit of $407,872 as of August 31, 2004. In addition, we had accounts payable and accrued liabilities in the amount of $440,997 as of August 31, 2004. We had a loss from operations of $419,436 for the year ended August 31, 2004. As a consequence of these factors, we require additional financing in order to maintain our existing business operations. We are pursuing additional financing, including equity private placements of our common stock. We currently do not have any arrangements for financing in place. There is no assurance that we will be able to achieve additional financing to fund the operating loss from our business operations and to pay our current liabilities. If we do not raise additional capital, our financial condition and our ability to continue operations will be adversely affected. If we are successful in completing equity private placements of our common stock, existing shareholders will experience dilution of their interests in Destiny.

If We Are Unable To Increase Our Revenues, Then Our Business And Our Financial Condition Will Suffer.

Our revenues have decreased to $751,914 for the year ended August 31, 2004 from $1,133,098 for the year ended August 31, 2003. The decrease in revenue is attributed to our internal focus on the commercial deployment of MPE™. The allocation of significant resources to the final stages of the MPE™ development and customization has resulted in the reduction in Clipstream™ revenues for fiscal 2004. Our operating expenses to date still exceed our revenues. Accordingly, our ability to attain profitability and to decrease our dependence on external financing is contingent upon our ability to increase all product revenues. We are working to continue the increase in revenues from sales of our Clipstream™ software. We are commercially launching our MPE secure media distribution system to the market in the first quarter of fiscal 2005. There is no assurance that we will be able to continue to increase revenues from our Clipstream™ software or that the MPE secure media distribution system will generate revenues in excess of the expenses attributable to the marketing of this product. If we are not successful in increasing revenues, then our ability to achieve profitable operations will be adversely affected.

If Revenues From Our Clipstream™ Software Decline, Then Our Financial Condition And Results Of Operations Will Be Adversely Affected.

Substantially all of our revenue is generated from sales of our Clipstream™ streaming media software. The market for streaming media software is extremely competitive and includes competitors such as Real Networks and Microsoft. Due to this competition, there is a risk that our competitors will gain an increased market share or may cause the price that we are able to charge for Clipstream™ software to decrease. Either of these factors could cause our revenue to decrease with the result that our financial condition and operating results would be adversely affected.

If We Are Not Able To Control Our Operating Expenses, Then Our Financial Condition May Be Adversely Affected.

We have been successful in containing our operating expenses. However, operating expenses did increase slightly to $1,256,580 for the year ended August 31, 2004 from $1,217,790 for the year ended August 31, 2003. Our ability to achieve profitability is conditional upon our ability to maintain our operating expenses. While we have been successful in containing our operating expenses, there is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

If We Are Not Successful In Legal Proceedings Against Us, Then Our Business And Financial Condition Could Be Adversely Affected.

We are currently party to two material legal proceedings, as described in Item 3 of Part I under the heading “Legal Proceedings”. If we are not successful in these legal proceedings and are forced to make payments of damages to the plaintiffs, then our business and our financial condition would be adversely affected. As at August 31, 2004, the Company has accrued for the disputed fees and will seek all options available to extinguish this debt. Any adjustments to the amounts recognized will be recorded when determinable.

As We Have A History Of Net Losses, There Is No Assurance That We Will Attain Profitability.

We have had net losses since our inception in 1998. We have an accumulated deficit of $4,088,494. In addition, our loss for the year ended August 31, 2004 was $419,436. Our inability to increase our revenues while maintaining reduced operating expenses will cause our history of losses to continue.

Our Success Is Dependent, To A Large Degree, Upon The Efforts Of Mr. Steve Vestergaard, Our Current Executive Officer.

Mr. Vestergaard was the founder of Destiny Software and has been involved in our business operations since our inception. The loss or unavailability of Mr. Vestergaard could have an adverse effect on our business operations and financial condition. We do not maintain key man life insurance policies for Mr. Vestergaard or for any of our other employees. In addition, our continued success is dependent upon our ability to attract and retain qualified personnel in all areas of our business, especially management positions. In the event that we are unable to attract and retain qualified personnel, our business would be adversely affected.

As There Is Substantial Doubt About Our Ability To Continue As A Going Concern, An Investment In Our Common Stock Is Risky.

We have disclosed in the notes to our financial statements that we have incurred recurring losses from operations and that we have a working capital deficiency. Our operations to date have been primarily financed by equity transactions. Depending on our ability 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 will require the continued financial support of 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 auditors have made reference to a substantial doubt about our ability to continue as a going concern in their audit report on our audited financial statements.

Our Financial Results May Be Adversely Impacted By Currency Fluctuations.

Our revenues are primarily in United States dollars as most of our revenues are generated from sales in the United States. Our operating expenses are primarily in Canadian dollars due to the fact that our operations are located in Vancouver, British Columbia, Canada. An increase in the value of the Canadian dollar in relation to the United States dollar could have the effect of increasing our loss from operations.

If Our Products Are Defective Or Contain Errors, We May Become Subject To Product Liability Claims.

As a result of their complexity, our software products may contain undetected errors or failures when first introduced or as new versions are released. There can be no assurance that, despite testing we undertake and testing and use by current and potential customers, errors will not be found in new products after commencement of commercial shipments. The occurrence of such errors could result in loss of or delay in market acceptance of our products, which could have a material adverse effect on our business, financial condition and results of operations. Our products also may be vulnerable to break-ins and similar disruptive problems caused by Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through the computer systems of our customers, which may result in significant liability to us and deter potential customers. The sale and support of our products may entail the risk of liability claims. A product liability claim brought against us could have a material adverse effect on our business, financial condition and results of operations.

Our Ability to Manage Growth.

Should we be successful in the sales and marketing efforts of our software products, we will experience significant growth in operations. If this occurs, management anticipates that additional expansion will be required in order to continue our product development. Any expansion of our business would place further demands on our management, operational capacity and financial resources. We anticipate that we will need to recruit qualified personnel in all areas of its operations, including management, sales, marketing, delivery, and software development. There can be no assurance that we will be effective in attracting and retaining additional qualified personnel, expanding its operational capacity or otherwise managing growth. In addition, there can be no assurance that our current systems, procedures or controls will be adequate to support any expansion of our operations. The failure to manage growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Risk of System Failure and/or Security Risks.

Despite the implementation of security measures, our network infrastructure could be vulnerable to unforeseen computer problems. Although we believe we have taken steps to mitigate much of the risk, we may in the future experience interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others. Unknown security risks may result in liability to us and also may deter new customers from purchasing our software and services, and individuals from utilizing it. Although we intend to continue to implement and establish security measures, there can be no assurance that measures implemented by us will not be circumvented in the future, which could have a material adverse effect on our business, financial condition or results of operations.

Lack of Established Market for Products and Services; Dependence on Internet and Intranets as Mediums of Commerce and Communications.

The market for our streaming media products and services is new and evolving rapidly. It depends on increased use of the Internet and intranets. If the Internet and intranets are not adopted as methods for commerce and communications, or if the adoption rate slows, the market for our products and services may not grow, or may develop more slowly than expected.

The electronic commerce market is relatively new and evolving. Sales of our products depend in large part on the development of the Internet as a viable commercial marketplace. There are now substantially more users and much more "traffic" over the Internet than ever before, use of the Internet is growing faster than anticipated, and the technological infrastructure of the Internet may be unable to support the demands placed on it by continued growth. Delays in development or adoption of new technological standards and protocols, or increased government regulation, could also affect Internet use. In addition, issues related to use of the Internet and intranets, such as security, reliability, cost, ease of use and quality of service, remain unresolved and may affect the amount of business that is conducted over the Internet and intranets.

Product Delays and Errors.

We have experienced development delays and cost overruns associated with its product development. We may encounter such problems in the future. Delays and cost overruns could affect our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements. Our products also may contain undetected errors that could cause adverse publicity, reduced market acceptance of the products, or lawsuits by customers.

Online Commerce Security Risks.

Online commerce and communications depend on the ability to transmit confidential information securely over public networks. Any compromise of our ability to transmit confidential information securely, and costs associated with the prevention or elimination of such problems, could have a material adverse effect on our business.

International Operations.

We market and sell our products in the United States, Canada, Europe, Asia, South America, Africa and Australia. As such, we are subject to the normal risks of doing business abroad. Risks include unexpected changes in regulatory requirements, export and import restrictions, tariffs and trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, potential adverse tax consequences, exchange rate fluctuations, increased risks of piracy, limits on the our ability to enforce our intellectual property rights, discontinuity of our infrastructures, limitations on fund transfers and other legal and political risks. Such limitations and interruptions could have a material adverse effect on our business. We do not currently hedge our foreign currency exposures.

Dividend Policy.

We do not presently intend to pay cash dividends in the foreseeable future, as any earnings, are expected to be retained for use in developing and expanding its business. Our ability to declare dividends will depend on results of operations, cash requirements and future prospects of us and other factors.

The Lack of Assurance That We Will Be Able to Meet Our Future Capital Requirements.

We currently have limited sources of operating cash flows to fund future projects or corporate overhead. We have limited financial resources, and there is no assurance that additional funding will be available. Our ability to continue to operate will be dependent upon our ability to raise significant additional funds in the future.

As Shares of Our Common Stock are Classified as Penny Stock, Investors May Have Difficulty Selling Their Shares.

Our common stock is subject to “penny stock” rules as defined in 1934 Securities and Exchange Act rule 3151-1. The Securities and Exchange Commission has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Our common shares are subject to these penny stock rules. Transaction costs associated with purchases and sales of penny stocks are likely to be higher than those for other securities. Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system).

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the common shares in the United States and shareholders may find it more difficult to sell their shares.

ITEM 2. DESCRIPTION OF PROPERTY.

Our head office is located in leased premises at Suite 1040, 1055 West Hastings Street, Vancouver, British Columbia, Canada V6E 2E9. Our principal business operations are carried out from head office. Our leased premises consist of approximately 5,734 square feet. We pay rent of approximately $12,600 Canadian (equal to approximately $10,270 US) per month. The lease expires August 31, 2007. We consider our leased premises adequate for our current business purposes.

ITEM 3. LEGAL PROCEEDINGS.

Destiny Software Productions Inc, our wholly-owned subsidiary, has commenced legal proceedings against Impatica.com Inc. as defendant in the Supreme Court of British Columbia, Canada for payment of approximately $512,500 in unpaid technology licensing fees. During November, 2000 we agreed to license our Clipstream™ and Videoclipstream™ technology to Impatica in return for a $675,000 license fee. The agreement called for payment of that fee in three installments against delivery of the technology in three phases. The technology was delivered and we received the first two payments totaling $162,500, but Impatica has defaulted in paying the last $62,500 in cash and delivering the 200,000 Impatica shares which were to make up the balance of the purchase price. It is our position that Impatica has repudiated the licensing agreement and that the unpaid license fees totaling $512,500 are a debt owing by Impatica to Destiny. The outstanding balance has not been booked as revenue or elsewhere in our financial statements. The Writ of Summons was filed in the BC Supreme Court on June 6, 2001. The S.C.B.C. Registry No. is S013166. The defendant has denied liability to Destiny Software on the basis that the license agreement was not formalized and that funds were advanced on an alleged “good faith” agreement. The defendant has filed a counter-claim against Destiny Software seeking return of the

$162,500 advanced to us on the alleged “good faith” agreement based on the defendant’s allegation that the technology did not perform as represented.

The Company’s are currently in discussions to resolve this matter outside of the courts.

On September 14, 2004, subsequent to year end, a statement of claim was filed against the Company by its former solicitor for fees 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. The Writ of Summons was filed in the BC Supreme Court on September 14, 2004. As at August 31, 2003 and 2004, the Company has accrued for the disputed fees and will seek all options available to extinguish this debt. Any adjustments to the amounts recognized will be recorded when determinable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to our security holders for a vote during the fourth quarter of our fiscal year ending August 31, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

Our shares are currently trading on the OTC Bulletin Board under the stock symbol DSNY. The first day on which the Company's shares were traded under the stock symbol DSNY was June 26, 2000. The high and the low trades for our shares for each quarter of actual trading were:

QUARTER	HIGH ($)	LOW ($)
3rd Quarter 2000	$1.56	$0.59
4th Quarter 2000	$0.62	$0.14
1st Quarter 2001	$ 0.62	$0.14
2nd Quarter 2001	$0.31	$0.10
3rd Quarter 2001	$0.17	$0.07
4th Quarter 2001	$0.19	$0.07
1st Quarter 2002	$0.26	$0.11
2nd Quarter 2002	$0.19	$0.12
3rd Quarter 2002	$0.18	$0.08
4th Quarter 2002	$0.14	$0.07
1st Quarter 2003	$0.14	$0.08
2nd Quarter 2003	$0.11	$0.06
3rd Quarter 2003	$0.11	$0.06
4th Quarter 2003	$0.22	$0.06
1st Quarter 2004	$0.35	$0.08
2nd Quarter 2004	$0.36	$0.16
3rd Quarter 2004	$0.66	$0.37
4th Quarter 2004 (to date)	$0.69	$0.28

The trades reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Holders of Common Stock

As of December 8, 2004, we had 36,119,431 shares of our common stock outstanding and there were 1,710 registered shareholders of our common stock.

Dividends

We have neither declared nor paid any cash dividends on our capital stock and do not anticipate paying cash dividends in the foreseeable future. Our current policy is to retain any earnings in order to finance the expansion of our operations. Our board of directors will determine future declaration and payment of dividends, if any, in light of the then-current conditions they deem relevant and in accordance with applicable corporate law.

Recent Sales of Unregistered Securities

During our fiscal year ended August 31, 2004, we completed the sales of the following securities that were not registered pursuant to the Securities Act of 1933 (the "Securities Act"):

On November 21, 2003, we completed an offering of 2,000,000 shares of our common stock at a price of $0.15 per share to a group of investors for total proceeds of $300,000. We completed the offering pursuant to Rule 903 of Regulation S of the Securities Act. A finder's fee of $30,000 was paid by us. The certificates representing the shares were endorsed with a legend confirming their restrictive status pursuant to the Securities Act.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion of our financial condition and our subsidiaries and our results of operations should be read together with the consolidated financial statements and related notes that are included later in this Annual Report on Form 10-KSB. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this Annual Report on Form 10-KSB.

RESULTS OF OPERATIONS

Revenue

Approximately 96% of our revenues continue to be derived from sales of our Clipstream™ software, with the balance being comprised of sales of our PirateRadio software. For sales of our Clipstream™ software, our revenues are primarily attributable to revenues from license fees. Revenues associated with maintenance agreements for our Clipstream™ software, which include updates, upgrades, support and training services, accounted for approximately 20% of Clipstream™ revenues.

Our revenues decreased to $751,914 for the year ended August 31, 2004 from $1,133,098 for the year ended August 31, 2003, representing a decrease of $381,184 or 34%. The decrease over prior years revenues is a direct result of the Company allocating significant resources to the final development and customization of MPE™ for commercial deployment in the first quarter of 2005.

In addition, we note revenues in 2003 included $184,023 from deferred revenues recognized under software sales from prior periods compared to $64,013 as at August 31, 2004, a decrease of $120,010 or 65%. Our revenues for the year ended August 31, 2004 included $64,013 of deferred revenues under software sales completed in prior periods. Accordingly, revenues from sales of new software products were $687,901 or 91% for the fiscal year ended August 31, 2004, compared to $949,075 or 83% for the fiscal year ended August 31, 2003. These deferred revenues represent revenues associated with maintenance obligations performed during the year under software sales completed in prior periods.

$50,000 of the deferred revenues represent part payment of an MPE™ customization fee paid by Universal Music Group. The MPE™ system was launched October 6th, 2004 and began generating transaction based revenue on that date. Revenues will depend on the rate of adoption by radio and trusted users. There are competing systems and there is no assurance that this revenue will continue if the system doesn't continue to receive support from the industry.

Clipstream™ revenues were negatively impacted because of a shift of resources to facilitate the launch and marketing of MPE™. We are expecting Clipstream™ revenues to grow significantly in the coming year as we plan to increase our sales and marketing efforts.

Operating Expenses

General and administrative	**August 31, 2004**	**August 31, 2003**	**$ Change**	**% Change**
Wages and benefits	$159,689	$189,499	$(29,810)	(15.73%)
Rent	24,045	16,381	7,664	46.79%
Telecommunications	9,996	13,430	(3,434)	(25.57%)
Bad debt	31,745	17,414	14,331	82.30%
Office and miscellaneous	198,363	100,486	97,877	97.40%
Professional fees	86,236	32,979	53,257	161.49%
	$510,074	$370,189	$139,885	37.79%

General and Administrative. Our general and administrative expenses consist primarily of salaries and related costs including overhead, professional fees, and other general office expenditures. General and administrative costs increased to $510,074 for the year ended August 31, 2004 from $370,189 for the year ended August 31, 2003, an increase of $139,885 or 38%. The increase in general and administrative costs is primarily due to an increase of $97,877 for office and miscellaneous expenses, an increase of $53,257 for professional fees and an increase of $14,331 to bad expense compared to fiscal 2003. The increase to general and administrative costs was partially offset by a reduction to wages and benefits of $29,810. The increase to office and miscellaneous expenses resulted because of us incurring a one-time charge of approximately $80,000 as well as monthly recurring fees relating to corporate initiatives for promotional and business development activities. During the 12 months ending August 31, 2004, we incurred significant legal fees to conclude the settlement of an outstanding lawsuit filed by a former employee as well as additional legal fees for the filing of our Form S-8 with the SEC and other general corporate matters. Professional fees will continue to be significant with the added disclosure requirements being implemented and enforced by the SEC due to the certification requirements under the Sarbanes-Oxley Act of 2002. The increase in bad debt expense included approximately $8,500 in charges relating to a failed transaction as well as other miscellaneous accounts that were deemed uncollectible during the fiscal period ending August 31, 2004. Wages and benefits decreased due to reduced personnel costs incurred over prior year. In fiscal 2003, we incurred a one time consultant fee for business initiatives that were partially allocated to wages and benefits for general and administrative purposes that were not incurred in fiscal 2004. We also note that the Company expects to incur additional administrative fees and wage expenses in fiscal 2005 as we work to ensure compliance with the Sarbanes-Oxley act of 2002 and the required procedures for financial certification of our internal controls and financial reporting functions.

Sales and marketing	**August 31, 2004**	**August 31, 2003**	**$ Change**	**% Change**
Wages and benefits	$302,568	$338,705	$(36,137)	(10.67%)
Rent	32,664	27,301	5,363	19.64%
Telecommunications	13,578	22,384	(8,806)	(39.34%)
Meals and entertainment	4,174	5,806	(1,632)	(28.11%)
Travel	15,242	11,155	4,087	36.64%
Advertising and marketing	77,281	26,758	50,523	188.81%
	$445,507	$432,109	$13,398	3.10%

Sales and Marketing. Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. Sales and marketing costs were $445,507 for the year ended August 31, 2004 compared to $432,109 for the year ended August 31, 2003, representing an increase of $13,398 or 3%. The increase to sales and marketing is attributed to an increase to advertising and marketing efforts of $50,523 and an increase to rent of $5,363 offset by decreases to wages and benefits, telecommunications and meals and entertainment. Advertising and marketing costs increased due to various monthly initiatives undertaken including corporate relations and business development marketing campaigns. Rent increased slightly due to the signing of a new lease agreement during the year for the next 42 months. Previously the Company had taken advantage of favorable rental rates through a sub-lease of the existing premises. Wages and benefits decreased due to the sales staff turnover and lower commissions being paid on reduced revenues. We expect that the wages and benefits will return to prior years balance in fiscal 2005 as sales of Clipstream™ build on the commercial deployment of MPE™.

Research and development	**August 31, 2004**	**August 31, 2003**	**$ Change**	**% Change**
Wages and benefits	$206,882	$315,835	$(108,953)	(34.50%)
Rent	33,461	27,301	6,160	22.56%
Telecommunications	13,910	22,384	(8,474)	(37.86%)
Repairs and maintenance	4,108	2,078	2,030	97.69%
	$258,361	$367,598	$(109,237)	(29.72%)

Research and Development. Research and development costs consist primarily of salaries and related personnel costs including overhead, and consulting fees with respect to product development and deployment. Research and development costs decreased to $258,361 for the year ended August 31, 2004 from $367,598 for the year ended August 31, 2003, representing a decrease of $109,237 or 30%. Research and development decreased over prior year because of a decrease of $108,953 to wages and benefits and a decrease of $8,474 to telecommunications off-set by a slight increases to rent and repairs and maintenance. The decrease to wages and benefits is a direct result of the capitalization of software development costs. During the year ended August 31, 2004, the Company achieved technological feasibility on our MPE™ technology thereby allowing us to commence capitalizing development costs associated with MPE™. We anticipate further costs being capitalized as the Company will work to enhance the existing technology to meet market needs as they are determined. Rent increased slightly due to the signing of a new lease at its existing premises during the fiscal year 2004. In 2003, we enjoyed favorable rental rates from a sub-lease. Telecommunications decreased as a portion of these costs were also capitalized in the development of software costs. Costs that will be capitalized on the development of MPE™ will include direct material costs, direct labour and an overhead component.

Depreciation and amortization. Depreciation and amortization expenses arose from fixed assets and other assets. Depreciation and amortization decreased to $42,638 for the fiscal year ended August 31, 2004 from $47,894 for the fiscal year ended August 31, 2003, a decrease of $5,256 or 11%. The decrease in depreciation and amortization is due to the lower average net book value of equipment.

Other earnings and expenses

Interest expense decreased to $6,197 for the fiscal year ended August 31, 2004 from $18,013 for an effective decrease of $11,816. The decrease is due to more effective management of cash flow. The Company was able to avoid these costs through improved working capital management aided by the capital injection from the private placement completed on November 21, 2003.

Interest and other income increased to $12,206 for the 12 months ended August 31, 2004 from $8,433 for August 31, 2003 representing an increase of $3,773. The change over prior year is due to the Company earning rental income on excess space sublet during the year.

Extinguishment of debt amounted to $79,221 for the fiscal year ended August 31, 2004. We were successful in negotiating the extinguishment of $79,221 of liabilities relating to past services provided by various accountants, lawyers and telecommunication carriers.

Losses

Our loss before other items increased to $504,666 for the year ended August 31, 2004 from $84,692 for the year ended August 31, 2003, representing an effective increase of $419,974 or 496%. Our loss increased to $419,436 for the year ended August 31, 2004 from $94,272 for the year ended August 31, 2003, representing an effective increase of $325,164 or 345%. The decreases to our loss from operations and loss for the year are the result of our increased investment in the development of MPE™, the decrease to our overall revenues and slight increase to total operating costs compared to our prior fiscal year.

LIQUIDITY AND FINANCIAL CONDITION

We will have to raise additional funds to complete our business plan due to our significant working capital deficit. Our goal is to obtain these funds through an optimal mix of internal and external financing opportunities including cash flows from operations, strategic partnerships and equity financings. There is no assurance that we will achieve the required financing.

We had cash of $17,523 as at August 31, 2004 compared to cash of $6,123 as at August 31, 2003. We had a working capital deficiency of $407,872 as at August 31, 2004 compared to a working capital deficiency of $428,486 as at August 31, 2003. We had a shareholders' deficiency of $420,316 as at August 31, 2003 compared to a shareholders' deficiency of $445,744 as at August 31, 2003.

Working Capital Deficiency

The decrease in our working capital deficiency is attributed to a significant reduction in accounts payable and accrued liabilities offset by a slight increase to loans payable and a significant decrease to accounts receivable. Accounts payable and accrued liabilities decreased because of the settlement and payout of certain payables that had been accrued in prior periods, the funds injected by the private placement completed in November 2003 and general improvements to working capital management. The Accounts receivable decreased in line with the general decrease to overall revenues.

Our accounts payable and accrued liabilities decreased to $440,997 as at August 31, 2004 from $543,281 at August 31, 2003, representing a decrease of $102,284 or 19%. The decrease in our accounts payable and accrued liabilities is due to the extinguishment of certain long-term payables, the funds injected by the private placement completed in November, and general improvements to working capital management. However, the current balance of our accounts payable and accrued liabilities reflects our current inability to finance our operations from current product revenues. Included in our accounts payable and accrued liabilities balance as at August 31, 2004 is $89,500 of disputed amounts arising from the cancellation of various agreements. We are currently considering all options available to settle these liabilities.

Our loans payable increased to $20,564 as at August 31, 2004 from $10,825 as at August 31, 2003. These loans are from one of our shareholders and are unsecured and non-interest bearing. The balance as at August 31, 2003 was in fact paid in full from operational cash flows during the year, however, an additional amount was temporarily advanced to pursue a vital business objective in February 2004. These funds will be paid in full from operational cash flows as soon as feasible.

Our current unearned revenues decreased to $62,305 as at August 31, 2004 from $64,013 as at August 31, 2003, representing a total decrease of $1,708 or 3%. Included in the year end unearned revenue balance was an advanced payment of $50,000 for commercial customization of MPE™ for a significant licensee. The Company will recognize the advanced payments into revenue upon the completion of the development work and along with the final receipt of payments for completion of the full project. The decrease in unearned revenue is attributable to a change in our business practice. We have changed our business practices to separately sell our license agreements and maintenance agreements when o