

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-Q  
April 15, 2013

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

**FORM 10-Q**

(Mark One)

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

For the six months ended February 28, 2013

**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.)

**Suite 750, PO Box 11527, 650 West Georgia Street, Vancouver,  
British Columbia Canada V6B 4N7**

(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 preceding 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 \_\_\_

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No \_\_\_

(Does not currently apply to the Registrant)

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ ]

Smaller reporting company [ X ]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
**51,961,922 Shares of \$0.001 par value common stock outstanding as of April 15, 2013.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS.**

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Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Six months ended February 28, 2013

(Expressed in United States dollars)

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## Destiny Media Technologies Inc.

## CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

Unaudited

As at

|  | February 28,<br>2013 | August 31,<br>2012 |
|--|----------------------|--------------------|
|  | \$                   | \$                 |
| <b>ASSETS</b>  |                      |                    |
| <b>Current</b>   |                      |                    |
| Cash and cash equivalents  | 1,111,490            | 1,275,423          |
| Accounts receivable, net of allowance for doubtful accounts of \$9,747 [August 31, 2012 \$6,053] | 496,408              | 440,053            |
| Other receivables  | 93,580               | 48,508             |
| Current portion of long term receivable [note 3]   | 116,860              | 104,056            |
| Prepaid expenses   | 29,834               | 27,059             |
| Deferred tax assets - current portion  | 258,000              | 258,000            |
| <b>Total current assets</b>  | <b>2,106,172</b>     | <b>2,153,099</b>   |
| Deposits   | 36,564               | 37,847             |
| Long term receivable [note 3]  | 562,812              | 625,098            |
| Property and equipment, net  | 262,630              | 287,958            |
| Deferred tax assets - long term portion  | 624,000              | 689,000            |
| <b>Total assets</b>  | <b>3,592,178</b>     | <b>3,793,002</b>   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                      |                    |
| <b>Current</b>   |                      |                    |
| Accounts payable   | 60,772               | 199,930            |
| Accrued liabilities  | 229,820              | 250,623            |
| Deferred leasehold inducement  | 3,763                | 5,843              |
| Deferred revenue   | 26,366               | 55,671             |
| <b>Total liabilities</b>   | <b>320,721</b>       | <b>512,067</b>     |
| Commitments and contingencies [notes 5 and 8]  |                      |                    |
| <b>Stockholders equity</b>   |                      |                    |
| Common stock, par value \$0.001 [note 4]   |                      |                    |
| Authorized: 100,000,000 shares   |                      |                    |
| Issued: 52,118,572; Outstanding: 51,961,922 shares   |                      |                    |
| [August 31, 2012 - issued outstanding 52,091,004 shares]   |                      |                    |
|  | 52,119               | 52,091             |
| Additional paid-in capital   | 9,008,929            | 9,008,957          |
| Shares held for cancellation [note 4]  | (99,762)             |                    |
| Accumulated Deficit  | (5,839,782)          | (6,013,030)        |
| Accumulated other comprehensive income   | 149,953              | 232,917            |
| <b>Total stockholders equity</b>   | <b>3,271,457</b>     | <b>3,280,935</b>   |
| <b>Total liabilities and stockholders equity</b>   | <b>3,592,178</b>     | <b>3,793,002</b>   |
| See accompanying notes   |                      |                    |

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME**

(Expressed in United States dollars)

Unaudited

|   | <b>Three Months<br/>Ended<br/>February 28,<br/>2013<br/>\$</b> | Three Months<br>Ended<br>February 29,<br>2012<br>\$ | <b>Six Months<br/>Ended<br/>February 28,<br/>2013<br/>\$</b> | Six Months<br>Ended<br>February 29,<br>2012<br>\$ |
|---|--|---|--|---|
| <b>Revenue</b> [note 10]                              | <b>880,322</b>   | 894,825   | <b>1,944,189</b>   | 2,019,442   |
| <b>Operating expenses</b>                             |  |   |  |   |
| General and administrative                            | <b>198,340</b>   | 431,247   | <b>389,597</b>   | 909,125   |
| Sales and marketing                                   | <b>203,382</b>   | 193,797   | <b>443,600</b>   | 392,670   |
| Research and development                              | <b>457,080</b>   | 546,280   | <b>857,432</b>   | 964,394   |
| Amortization  | <b>28,390</b>  | 16,364  | <b>56,046</b>  | 30,739  |
|   | <b>887,192</b>   | 1,187,688   | <b>1,746,675</b>   | 2,296,928   |
| Income (loss) from operations                         | <b>(6,870)</b>   | (292,863)   | <b>197,514</b>   | (277,486)   |
| <b>Other income (expenses)</b>                        |  |   |  |   |
| Interest income                                       | <b>20,068</b>  | 2,159   | <b>40,734</b>  | 4,971   |
| Interest and other expense                            |  | (546)   |  | (1,180)   |
| <b>Income (loss) before income taxes</b>              | <b>13,198</b>  | (291,250)   | <b>238,248</b>   | (273,695)   |
| Income tax recovery (expense) - deferred              |  | 5,000   | <b>(65,000)</b>  |   |
| <b>Net Income (loss)</b>                              | <b>13,198</b>  | (286,250)   | <b>173,248</b>   | (273,695)   |
| <b>Other comprehensive income (loss), net of tax</b>  |  |   |  |   |
| Foreign currency translation adjustments              | <b>(77,448)</b>  | 35,752  | <b>(82,964)</b>  | (18,854)  |
| <b>Total comprehensive income (loss)</b>              | <b>(64,250)</b>  | (250,498)   | <b>90,284</b>  | (292,549)   |
| <b>Net income per common share, basic and diluted</b> | <b>0.00</b>  | (0.01)  | <b>0.00</b>  | (0.01)  |
| <b>Weighted average common shares outstanding:</b>    |  |   |  |   |
| <b>Basic</b>  | <b>51,989,473</b>  | 50,487,577  | <b>52,051,181</b>  | 50,487,577  |
| <b>Diluted</b>  | <b>52,551,731</b>  | 50,487,577  | <b>52,729,848</b>  | 50,487,577  |

See accompanying notes

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

(Expressed in United States dollars)

Unaudited

|   | Common stock<br>Shares<br># | Common stock<br>Amount<br>\$ | Additional<br>paid-in<br>capital<br>\$ | Shares<br>held<br>for cancellation<br>\$ | Accumulated<br>Deficit<br>\$ | Accumulated<br>other<br>comprehensive<br>income<br>\$ | Total<br>stockholders<br>equity<br>\$ |
|---|-----------------------------|------------------------------|--|--|------------------------------|---|---------------------------------------|
| <b>Balance,<br/>August 31,<br/>2011</b>                               | <b>50,487,577</b>           | <b>50,613</b>                | <b>8,758,044</b>                       | <b>(50,076)</b>                          | <b>(6,576,033)</b>           | <b>223,317</b>  | <b>2,405,865</b>                      |
| Total<br>comprehensive<br>income                                      |                             |                              |  |  | 563,003                      | 9,600   | 572,603                               |
| Common stock<br>issued on<br>options<br>exercised                     | 24,225                      | 24                           | (24)                                   |  |                              |   |                                       |
| Common stock<br>issued on<br>warrants<br>exercised                    | 1,579,202                   | 1,579                        | 277,171                                |  |                              |   | 278,750                               |
| Stock options<br>repurchased<br>and cancelled                         |                             |                              | (19,080)                               |  |                              |   | (19,080)                              |
| Common stock<br>cancelled   |                             | (125)                        | (49,951)                               | 50,076                                   |                              |   |                                       |
| Stock<br>compensation   |                             |                              | 42,797                                 |  |                              |   | 42,797                                |
| <b>Balance,<br/>August 31,<br/>2012</b>                               | <b>52,091,004</b>           | <b>52,091</b>                | <b>9,008,957</b>                       |  | <b>(6,013,030)</b>           | <b>232,917</b>  | <b>3,280,935</b>                      |
| Total<br>comprehensive<br>income                                      |                             |                              |  |  | 173,248                      | (82,964)  | 90,284                                |
| Common stock<br>repurchased<br>and held for<br>cancellation<br>Note 4 | (156,650)                   |                              |  | (99,762)                                 |                              |   | (99,762)                              |
| Common stock<br>issued on<br>options<br>exercised Note<br>4           | 27,568                      | 28                           | (28)                                   |  |                              |   |                                       |
| <b>Balance,<br/>February 28,<br/>2013</b>                             | <b>51,961,922</b>           | <b>52,119</b>                | <b>9,008,929</b>                       | <b>(99,762)</b>                          | <b>(5,839,782)</b>           | <b>149,953</b>  | <b>3,271,457</b>                      |



*See accompanying notes*

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## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

| Six months ended,  | February 28,<br>2013 | February 29,<br>2012 |
|--|----------------------|----------------------|
|  | \$                   | \$                   |
| <b>OPERATING ACTIVITIES</b>                                |                      |                      |
| Net income   | 173,248              | (273,695)            |
| Items not involving cash:                                  |                      |                      |
| Depreciation and amortization                              | 56,046               | 30,739               |
| Stock-based compensation                                   |                      | 42,531               |
| Deferred leasehold inducement                              | (1,947)              | 953                  |
| Deferred income taxes                                      | 65,000               |                      |
| Unrealized foreign exchange                                | (15,484)             |                      |
| Changes in non-cash working capital:                       |                      |                      |
| Accounts receivable  | (73,722)             | (141,751)            |
| Other receivables  | (48,321)             | (52,082)             |
| Prepaid expenses and deposits                              | (3,798)              | (2,544)              |
| Accounts payable   | (137,022)            | (19,342)             |
| Accrued liabilities  | (12,878)             | (53,925)             |
| Deferred revenue   | (28,360)             | 19,635               |
| Long term receivable                                       | 41,099               |                      |
| <b>Net cash provided by (used in) operating activities</b> | <b>13,861</b>        | <b>(449,481)</b>     |
| <b>INVESTING ACTIVITIES</b>                                |                      |                      |
| Purchase of property and equipment                         | (39,945)             | (62,114)             |
| <b>Net cash used in investing activities</b>               | <b>(39,945)</b>      | <b>(62,114)</b>      |
| <b>FINANCING ACTIVITIES</b>                                |                      |                      |
| Repayments on capital lease obligations                    |                      | (3,894)              |
| Proceeds from options/warrants exercised                   |                      | 278,750              |
| Repurchase of common stock                                 | (99,762)             |                      |
| <b>Net cash provided by (used in) financing activities</b> | <b>(99,762)</b>      | <b>274,856</b>       |
| <b>Effect of foreign exchange rate changes on cash</b>     | <b>(38,087)</b>      | <b>(23,257)</b>      |
| <b>Net decrease in cash during the period</b>              | <b>(163,933)</b>     | <b>(259,996)</b>     |
| Cash, beginning of the period                              | 1,275,423            | 1,238,173            |
| <b>Cash, end of the period</b>                             | <b>1,111,490</b>     | <b>978,177</b>       |
| <b>Supplementary disclosure</b>                            |                      |                      |
| Interest paid  |                      | 1,180                |
| Income taxes paid  |                      |                      |
| <i>See accompanying notes</i>                              |                      |                      |

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**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, Europe and Australia.

The Company's stock is listed for trading under the symbol **DSNY** on the OTC Bulletin Board in the United States, under the symbol **DSY** on the TSX Venture Exchange and under the symbol **DME** on the Berlin, Frankfurt, Xetra and Stuttgart exchanges in Germany.

**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 pursuant to the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended February 28, 2013 are not necessarily indicative of the results that may be expected for the year ended August 31, 2013.

The balance sheet at August 31, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States 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-K for the year ended August 31, 2012.

**Destiny Media Technologies Inc.****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**3. LONG TERM RECEIVABLE**

Pursuant to a Settlement Deed dated March 5, 2012, the Company became entitled to a settlement sum of \$825,000 Australian dollars ( AUD ) (US \$858,194), receivable in monthly installments over the course of 72 months, beginning on March 31, 2012. The unpaid balance accrues interest of 10.25% per annum compounded monthly. The receivable is secured by a registered charge against real estate located in Australia. As at February 28, 2013, installments of \$226,450AUD and interest of \$67,227AUD had been received. An additional \$5,687AUD of interest was receivable at February 28, 2013 and was included in other receivables. This amount was received subsequent to February 28, 2013.

The settlement amount receivable was recorded during the year ended August 31, 2012 as a recovery to general and administrative expenses.

Payments to be received over the next five fiscal years as follows:

|            | Principal<br>(\$) | Interest (\$) | Total (\$) |
|------------|-------------------|---------------|------------|
| 2013       | 61,317            | 39,085        | 100,402    |
| 2014       | 113,994           | 58,124        | 172,118    |
| 2015       | 126,243           | 45,875        | 172,118    |
| 2016       | 139,809           | 32,309        | 172,118    |
| 2017       | 154,832           | 17,286        | 172,118    |
| Thereafter | 83,477            | 2,512         | 85,989     |
|            | 679,672           | 195,191       | 874,863    |

**4. STOCKHOLDERS EQUITY****[a] Common stock issued and authorized**

The Company is authorized to issue up to 100,000,000 shares of common stock, par value \$0.001 per share.

During the six months ended February 28, 2013, 27,568 shares were issued pursuant to the cashless exercise of 60,000 share purchase options exercisable at \$0.50 during the year ended August 31, 2012.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**4. STOCKHOLDERS' EQUITY (continued)**

**[b] Common stock cancelled**

On December 6, 2012, the board of directors authorized a new tranche to repurchase up to 1,000,000 shares of the Company's common stock at a maximum share purchase price of \$1.00 per share. Repurchases will be at times and in amounts as the Company deems appropriate and will be made through open market transactions. All repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. The board approved stock repurchase program runs through May 31, 2013. In addition to the applicable securities laws, the Company will not make any purchases during a time at which its insiders are subject to a blackout from trading in the Company's common shares.

During the six months ended February 28, 2013, the Company repurchased 156,650 shares which were held for cancellation as at February 28, 2013 and cancelled as at April 15, 2013.

During the six months ended February 29, 2012, the Company cancelled 124,930 shares which were repurchased during the last quarter of fiscal year ended August 31, 2011.

**[c] Stock option plans**

The Company has two existing stock option plans (the "Plans"), namely the Amended 1999 Stock Option Plan and the 2006 Stock Option Plan, under which up to 3,750,000 and 5,100,000 shares of the common stock, respectively, have been reserved for issuance. A total of 2,169,716 common shares remain eligible for issuance under the plans. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

**Destiny Media Technologies Inc.****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**4. STOCKHOLDERS EQUITY (cont d.)***Stock-Based Payment Award Activity*

A summary of option activity under the Plans as of February 28, 2013, and changes during the period ended are presented below:

| <b>Options</b>                              | <b>Shares</b>    | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>\$</b> |
|---|------------------|--|--|---|
| Outstanding at August 31, 2012              | 1,800,000        | 0.48   | 1.57   | 802,500   |
| <b>Outstanding at February 28, 2013</b>     | <b>1,800,000</b> | <b>0.48</b>                                    | <b>1.08</b>  | <b>541,500</b>                                  |
| Vested and exercisable at February 28, 2013 | 1,800,000        | 0.48   | 1.08   | 541,500   |

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at February 28, 2013.

During the three and six months ended February 28, 2013 and February 29, 2012, stock-based compensation expense has been reported in the statement of operations as follows:

|                                       | <b>Three Months Ended</b>   |                             | <b>Six Months Ended</b>     |                             |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                       | <b>February 28<br/>2013</b> | <b>February 29<br/>2012</b> | <b>February 28<br/>2013</b> | <b>February 29<br/>2012</b> |
|                                       | <b>\$</b>                   | <b>\$</b>                   | <b>\$</b>                   | <b>\$</b>                   |
| <b>Stock-based compensation:</b>      |                             |                             |                             |                             |
| General and administrative            |                             | 6,122                       |                             | 6,738                       |
| Sales and marketing                   |                             | 6,903                       |                             | 7,159                       |
| Research and development              |                             | 28,096                      |                             | 28,634                      |
| <b>Total stock-based compensation</b> |                             | <b>41,121</b>               |                             | <b>42,531</b>               |

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**Destiny Media Technologies Inc.****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**4. STOCKHOLDERS EQUITY (cont d.)***Valuation Assumptions*

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

|  | <b>Three Months Ended</b>   |                             | <b>Six Months Ended</b>     |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | <b>February 28<br/>2013</b> | <b>February 29<br/>2012</b> | <b>February 28<br/>2013</b> | <b>February 29<br/>2012</b> |
| Expected term of stock options (years) |                             | 1                           |                             | 1                           |
| Expected volatility                    |                             | 41%-46%                     |                             | 41%-46%                     |
| Risk-free interest rate                |                             | 0.2%                        |                             | 0.2%                        |
| Dividend yield                         |                             |                             |                             |                             |

Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the options is based on US Treasury bill rates in effect at the time of grant.

During the six months ended February 28, 2013, there were no options granted. During the six months ended February 29, 2012, 900,000 options exercisable at \$0.50, previously issued to directors and officers of the Company, expired. 900,000 replacement options, also immediately exercisable at \$0.50, were issued upon expiry for an additional two years. 450,000 options granted to employees, not listed as expired above, were extended by two years with no changes to other terms. The weighted-average grant-date fair value of options granted and extended during the six month period ended February 29, 2012 was \$0.03. As a result of the extension of the life of 450,000 options, the Company recorded an incremental value of \$13,519 as part of the total stock-based compensation of \$42,531 on the statements of operations during the six months ended February 29, 2012.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**4. STOCKHOLDERS EQUITY (cont d.)**

**[d] Employee Stock Purchase Plan**

The Company's 2011 Employee Stock Purchase Plan (the Plan) became effective on February 22, 2011. Under the Plan, employees of Destiny are able to contribute up to 5% of their annual salary into a pool which is matched equally by Destiny. Independent directors are able to contribute a maximum of \$12,500 each for a combined maximum annual purchase of \$25,000. The maximum annual combined contributions will be \$400,000. All purchases are made through the Toronto Stock Exchange by a third party plan agent. The third party plan agent will also be responsible for the administration of the Plan on behalf of Destiny and the participants.

During the six months ended February 28, 2013, the Company recognized compensation expense of \$78,103 (February 29, 2012: \$61,056) in salaries and wages on the statement of operations in respect of the Plan, representing the Company's employee matching of cash contributions to the plan. The shares were purchased on the open market at an average price of \$0.75 (February 29, 2012: \$0.48). The shares are held in trust by the Company for a period of one year from the date of purchase.

**5. COMMITMENTS**

The Company entered into a sub-lease agreement for its premises on September 15, 2010. It commenced on October 22, 2010 and will expire on October 30, 2013. The Company is committed to payments as followed:

\$

|      |         |
|------|---------|
| 2013 | 118,503 |
| 2014 | 39,501  |

During the six months ended February 28, 2013 the Company incurred rent expense of \$92,952 (February 29, 2012: \$113,995) which has been allocated between general and administrative expenses, research and development and sales and marketing on the statement of operations.

By a credit facilities agreement dated April 8, 2010 and amended June 17, 2011 and August 23, 2012, the Company has a credit facility with the Royal Bank of Canada consisting of a commercial credit card limit to \$48,700 (\$50,000 CDN). Borrowings under the facilities are repayable on demand.



**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**6. RELATED PARTY TRANSACTIONS**

The Company entered into a consulting agreement with a Director effective October 1, 2010. The Company will pay \$2,000 per month, plus authorized expenses. The Director will receive a 10% commission if related new businesses are successfully closed. During the six months ended February 28, 2013, the Company paid consulting fees of \$12,000 (February 29, 2012: \$12,000) under this agreement.

**7. INCOME TAX**

The Company has adopted the provisions of ASC 740, Income taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company and its subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well as income tax of multiple state and local jurisdictions. Based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for the tax years ended August 31, 1999 through August 31, 2012, the tax years which remain subject to examination by major tax jurisdictions as of February 28, 2013. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

**8. CONTINGENCIES**

On November 8, 2011, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia from Noramco Capital Corporation for \$100,000. The claim asserts that the Company has repudiated a subscription agreement entered into in August 2000. Management believes the claim is without merit and that the likelihood that the outcome of this matter will have a material adverse impact on its result of operations, cash flows and financial condition of the Company is remote. The Company has filed a counterclaim against Noramco and the alleged major beneficial shareholder of Noramco, R. A. Bruce McDonald for damages arising from a proposed private placement in 2000 which did not close. On March 4, 2013, Mr. McDonald passed away. The implications for the outstanding litigation are unclear.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**9. NEW ACCOUNTING PRONOUNCEMENTS**

***Recently adopted accounting pronouncements***

In February 2013, the FASB issued Accounting Standards Update 2013-02, Other Comprehensive Income (Topic 220) . The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This accounting standard update is effective prospectively for annual and interim periods beginning after December 15, 2012. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

**Destiny Media Technologies Inc.****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2013

**10. CONCENTRATIONS 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 product and location of customer, is as follows:

|  | <b>Three Months Ended</b>   |                             | <b>Six Months Ended</b>     |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | <b>February 28<br/>2013</b> | <b>February 29<br/>2012</b> | <b>February 28<br/>2013</b> | <b>February 29<br/>2012</b> |
|  | <b>\$</b>                   | <b>\$</b>                   | <b>\$</b>                   | <b>\$</b>                   |
| <b>MPE®</b>                            |                             |                             |                             |                             |
| North America                          | <b>469,044</b>              | 461,639                     | <b>980,850</b>              | 1,007,670                   |
| Europe                                 | <b>330,297</b>              | 347,875                     | <b>799,014</b>              | 851,936                     |
| Australasia                            | <b>32,609</b>               | 34,498                      | <b>69,799</b>               | 71,865                      |
| Total MPE®                             | <b>831,950</b>              | 844,012                     | <b>1,849,663</b>            | 1,931,471                   |
| <b>Clipstream ® &amp; Pirate Radio</b> |                             |                             |                             |                             |
| North America                          | <b>48,372</b>               | 50,813                      | <b>94,526</b>               | 87,971                      |
| Outside of North America               |                             |                             |                             |                             |
| Total Clipstream ® & Pirate Radio      | <b>48,372</b>               | 50,813                      | <b>94,526</b>               | 87,971                      |
| <b>Total revenue</b>                   | <b>880,322</b>              | 894,825                     | <b>1,944,189</b>            | 2,019,442                   |

During the six months ended February 28, 2013, two customers represented 54% of the total revenue balance [February 29, 2012 - two customers represented 56%].

As at February 28, 2013, two customers represented \$323,840 (65%) of the trade receivables balance [August 31, 2012 - two customers represented 68%].

The Company has substantially all its assets in Canada and its current and planned future operations are, and will be, located in Canada.

## **OF OPERATIONS**

### **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-Q. 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*, *intend*, *anticipate*, *believe*, *estimate*, *predict*, *potential* or *continue*, the negative of such terms or other similar 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 AND CORPORATE BACKGROUND**

Destiny Media Technologies, Inc. was incorporated in August 1998 under the laws of the State of Colorado. We carry out our business operations through our wholly owned subsidiaries, Destiny Software Productions Inc., a British Columbia company that was incorporated in 1992, MPE Distribution, Inc. a Nevada company that was incorporated in 2007 and Sonox Digital Inc., incorporated under the Canada Business Corporations Act on June 28, 2012. The Company, Destiny or we refers to the consolidated activities of all three companies.

Our principal executive office is located at Suite 750, PO Box 11527, 650 West Georgia Street, Vancouver, British Columbia V6B 4N7. Our telephone number is (604) 609-7736 and our facsimile number is (604) 609-0611.

Our common stock trades on TSX Venture Exchange in Canada under the symbol *DSY*, on the OTCBB and OTCQX under the symbol *DSNY*, and on various German exchanges (Frankfurt, Berlin, Stuttgart and Xetra) under the symbol *DME*, WKN 935 410.

Our corporate website is located at <http://www.dsny.com>.

### **OUR PRODUCTS AND SERVICES**

Destiny develops and markets services that enable the secure distribution of digital media content over the internet. Destiny services are based around proprietary security, watermarking and playerless streaming media technologies.

Currently, more than 95% of the Company's revenues come from the Play MPE® digital distribution service, which the recording industry uses to distribute new pre-release music and music videos to trusted recipients before that content is generally available for sale to the public.

The remaining 5% of revenue is generated from legacy sales of Clipstream®, a playerless streaming video solution first launched in 1999. The bulk of these revenues are generated by services provided to the market research industry, which has adopted our solution because of the higher play rates and the higher level of security in our offering.

Clipstream® powered videos are integrated into video questionnaires for use in market research surveys. The market research industry prefers our solution because the successful view rates are higher and because the security is more mature than other solutions. Videos can be secured to play only from authorized URL's and they actively block screenscraping programs that might try to download the video locally. In addition, videos are watermarked, so the source of unauthorized content can be identified.

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This legacy technology relies on a plugin from Oracle to be bundled into the browser and the install rate of this plugin has declined significantly since launch thirteen years ago. This first generation of Clipstream® generally does not work at all on smart phones and other devices.

The introduction of new browsers supporting HTML 5 has created a new opportunity. The Company is actively developing a second generation version of Clipstream®, which works natively on almost all modern browsers. We believe this new technology is disruptive to existing paradigms as streaming video encoded in this format can be hosted from any brand of web page server and it will play directly across desktops, laptops, smart phones, tablets, e-book readers, internet enabled TV's and other devices, including future devices still under development. As the streams are served by HTTP progressive download, they can be reused potentially reducing the bandwidth and hardware infrastructure required at the source. Clipstream® G2 is cross platform which results in savings from the elimination of costs associated with re-encoding videos into multiple formats (transcoding) and costs of the extra storage, power, air conditioning, staff and facility space required by competitive offerings. The solution is playerless and does not rely on third party plug-ins.

### **Play MPE®**

Play MPE® is a digital delivery service for securely moving broadcast quality audio, video, images, promotional information and other digital content securely through the internet. The system is currently used by the recording industry for transferring pre-release broadcast quality music, radio shows, and music videos to trusted recipients such as radio stations, media reviewers, VIP s, DJ s, film and TV personnel, sports stadiums and retailers. The system replaces the physical distribution (mail, courier or hand delivery) of CD s. As with traditional physical delivery, our fees are based on the size of the content and number of recipients.

More than 1,000 record labels, including all four major labels (Universal Music Group, Warner Music Group, EMI and Sony), are regularly using Play MPE® to deliver their content to radio.

### **Clipstream® Legacy**

Clipstream® is an innovative "instant play" solution for playback of streaming audio and streaming video. Unlike Windows Media Player or Quicktime, there is no player that has to launch for the content to playback. The Clipstream® software suite enables audio or video content to be streamed so that the media plays instantly and automatically when the user initiates playback. Creating streaming video content with other technologies can be a complicated process and in most cases, users are required to purchase and maintain streaming servers. With Clipstream®, content owners simply encode the content into the Clipstream® format, then upload to an existing website.

Clipstream® encoded content plays instantly in most cases, without requiring the user to download CODECS or player software. This results in a much higher play rate for site owners and because there is no player executable, users are not exposed to viruses, trojan horses or unstable code that could crash their computer or spy on them.

### **Clipstream® Generation 2**

The Company has released a working prototype of a new disruptive second generation streaming video technology. The Company is continuing development with a goal of launching this product commercially sometime in the current fiscal year.

## **RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED FEBRUARY 28, 2013**

### **Revenue**



Total revenue for the six months ended February 28, 2013 declined slightly over the same period in the prior year to \$1,944,189 (February 29, 2012 - \$2,019,442).

Revenue from the Play MPE® system, which represents over 95% of our total revenues, fell by 4.2% for the six months ended February 28, 2013 compared with the same period in the prior year to \$1,849,663 (February 29, 2012 - \$1,931,471). This decrease was attributable to unfavorable foreign exchange rate fluctuations between the US dollar and the Euro and a reduction in releases across various markets.

Approximately 41% of our Play MPE® revenue is denominated in Euros for the six months ended February 28, 2013. Play MPE® revenue from Europe for the six months ended February 28, 2013 was \$799,014 (February 29, 2012 - \$851,936) representing a decrease of 6.2%. European revenue is currently concentrated in the United Kingdom and the Scandinavian countries. Approximately 53% of Play MPE® revenue is denominated in US Dollars and 3% of Play MPE® revenue is denominated in Australia Dollars for the six months ended February 28, 2013.

## Operating Expenses

### Overview

As our technologies and products are developed and maintained in-house, the majority of our expenditures is on salaries and wages and associated expenses; office space, supplies and benefits. Our operations are primarily conducted in Canada and the majority of our costs are incurred in Canadian dollars while the majority of our revenue is in US dollars and Euros. As a result, our results of operations are impacted by fluctuations in the relevant exchange rates.

Total operating expenditures for the six months ended February 28, 2013 have decreased by 24.0% over the same period in the prior year to \$1,746,675 (February 29, 2012 - \$2,296,928). The decrease is mainly attributed to decreased professional fees as a result of the settlement of litigation reached during the third quarter of 2012.

| <b>General and administrative</b> | <b>28-Feb<br/>2013</b> | <b>29-Feb<br/>2012</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|-----------------------------------|------------------------|------------------------|----------------------|---------------------|
|                                   | (6 months)             | (6 months)             |                      |                     |
|                                   | \$                     | \$                     |                      |                     |
| Wages and benefits                | 196,680                | 195,960                | 720                  | 0.4%                |
| Rent                              | 14,581                 | 18,059                 | (3,478)              | (19.3%)             |
| Telecommunications                | 8,899                  | 9,311                  | (412)                | (4.4%)              |
| Bad debt                          | 3,934                  | (1,973)                | 5,907                | (299.4%)            |
| Office and miscellaneous          | 83,756                 | 184,222                | (100,466)            | (54.5%)             |
| Professional fees                 | 81,747                 | 503,546                | (421,799)            | (83.8%)             |
|                                   | 389,597                | 909,125                | (519,528)            | (57.1%)             |

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

The decrease in office and miscellaneous is related to foreign exchange gains during the current period, mostly as a result of fluctuations in the value of the Euro, which impacts an cash and accounts receivable balances denominated in that currency.

The decrease in professional fees is primarily the result of the settlement of litigation described above, and the resolution of a wrongful dismissal claim from a former employee in the fourth quarter of 2012. Significant costs were incurred to effect these settlements in the comparative period.



| <b>Sales and marketing</b> | <b>28-Feb<br/>2013</b> | <b>29-Feb<br/>2012</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|----------------------------|------------------------|------------------------|----------------------|---------------------|
|                            | (6 months)             | (6 months)             |                      |                     |
|                            | \$                     | \$                     |                      |                     |
| Wages and benefits         | 291,742                | 224,344                | 67,398               | 30.0%               |
| Rent                       | 21,628                 | 19,187                 | 2,441                | 12.7%               |
| Telecommunications         | 13,200                 | 9,893                  | 3,307                | 33.4%               |
| Meals and entertainment    | 6,194                  | 5,865                  | 329                  | 5.6%                |
| Travel                     | 20,353                 | 38,535                 | (18,182)             | (47.2%)             |
| Advertising and marketing  | 90,483                 | 94,846                 | (4,363)              | (4.6%)              |
|                            | 443,600                | 392,670                | 50,930               | 13.0%               |

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The increase in wages and benefits is mainly due to an increased focus from our existing staff on marketing and promotional activities in the current period. The lower travel expenses were due to various sales related trips to Japan and Europe in the comparative period.

| <b>Research and development</b> | <b>28-Feb<br/>2013</b> | <b>29-Feb<br/>2012</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|---------------------------------|------------------------|------------------------|----------------------|---------------------|
|                                 | (6 months)             | (6 months)             |                      |                     |
|                                 | \$                     | \$                     |                      |                     |
| Wages and benefits              | 765,413                | 832,823                | (67,410)             | (8.1%)              |
| Rent                            | 56,743                 | 76,749                 | (20,006)             | (26.1%)             |
| Telecommunications              | 34,631                 | 39,573                 | (4,942)              | (12.5%)             |
| Research and development        | 645                    | 15,249                 | (14,604)             | (95.8%)             |
|                                 | 857,432                | 964,394                | (106,962)            | (11.1%)             |

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. Rent expense has decreased as a result of a rent abatement received during the current quarter. Third party research and development costs decreased due to costs related to building out the functionality of the Play MPE® player in the comparative period.

### **Amortization**

Amortization expense arises from property and equipment, and from patents and trademarks. Amortization increased to \$56,046 for the six months ended February 28, 2013 from \$30,739 for the six months ended February 29, 2012, an increase of \$25,307 or 82.3% as a result of the development of new Clipstream® applications and resulting applications made for various patents and trademarks to protect these products.

### **Other earnings and expenses**

Interest income increased to \$40,734 for the six months ended February 28, 2013 from \$4,971 for the six months ended February 29, 2012, an increase of \$35,763. This is a result of interest income earned on the amount receivable pursuant to the litigation settlement described above.

Interest expense decreased to \$Nil for the six months ended February 28, 2013 from \$1,180 for the six months ended February 29, 2012, a decrease of \$1,180.

**Net income**

During the six months ended February 28, 2013 we have net income of \$173,248 (February 29, 2012 net loss of \$273,695). The increase in net income during the period is the result of a large decrease in professional fees, partially offset by increased salaries and wages costs due to additional staff.

Adjusted EBITDA is not defined under generally accepted accounting principles ( GAAP ) and it may not be comparable to similarly titled measures reported by other companies. We used Adjusted EBITDA, along with other GAAP measures, as a measure of profitability because Adjusted EBITDA helps us to compare our performance on a consistent basis by removing from our operating results the impact of our capital structure, the effect of operating in different tax jurisdictions, the impact of our asset base, which can differ depending on the book value of assets, the accounting methods used to compute depreciation and amortization, the existence or timing of asset impairments and the effect of non-cash stock-based compensation expense. We believe Adjusted EBITDA is useful to investors as it is a widely used measure of performance and the adjustments we make to Adjusted EBITDA provide further clarity on our profitability. We remove the effect of non-cash stock-based compensation from our earnings which can vary based on share price, share price volatility and expected life of the equity instruments we grant. In addition, this stock-based compensation expense does not result in cash payments by us. Adjusted EBITDA has limitations as a profitability measure in that it does not include the interest expense on our debts, our provisions for income taxes, the effect of our expenditures for capital assets, the effect of non-cash stock-based compensation expense and the effect of asset impairments. The following is a reconciliation of net income from operations to Adjusted EBITDA over the eight most recently completed fiscal quarters:

|   | 2011 Q3 | 2011 Q4 | 2012 Q1 | 2012 Q2   | 2012 Q3  | 2012 Q4  | 2013 Q1  | 2013 Q2  |
|---|---------|---------|---------|-----------|----------|----------|----------|----------|
|   | \$      | \$      | \$      | \$        | \$       | \$       | \$       | \$       |
| <b>Net Income</b>                         | 230,720 | 377,952 | 12,555  | (286,250) | 651,141  | 185,557  | 160,050  | 13,198   |
| Amortization<br>and stock<br>compensation | 14,943  | 18,625  | 15,785  | 57,485    | 24,514   | 34,219   | 27,656   | 28,390   |
| Deduct interest<br>income                 | (1,302) | (4,918) | (2,178) | (1,613)   | (22,642) | (20,434) | (20,666) | (20,068) |
| Income tax                                | 94,000  | 67,000  | 5,000   | (5,000)   | 190,000  | 18,000   | 65,000   | -        |
| <b>Adjusted<br/>EBITDA</b>                | 338,361 | 458,659 | 31,162  | (235,378) | 843,013  | 217,342  | 232,040  | 21,520   |

**LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$1,111,490 as at February 28, 2013 (August 31, 2012 - \$1,275,423). The decrease in our cash was mainly due to a decrease in accounts payable. We had working capital of \$1,785,451 as at February 28, 2013 compared to working capital of \$1,641,032 as at August 31, 2012.

**CASHFLOWS**

Net cash provided by operating activities was \$13,861 for the six months ended February 28, 2013, compared to net cash used of \$449,481 for the six months ended February 29, 2012. The main reason for the decrease in net cash flows used in the operating activities was primarily due to cash receipts from a long term receivable arising from a legal settlement in the third quarter of 2012, as well as an increase in receivables balances in the comparative period.

The cash used in investing activities was \$39,945 for the six months ended February 28, 2013. The net cash used in investing activities was \$62,114 for the six months ended February 29, 2012. Cash used in investing activities are largely attributable to the development of new Clipstream® applications and the resulting applications made for various patents and trademarks to protect these products.

Net cash used in financing activities was \$99,762 for the six months ended February 28, 2013 compared to net cash provided of \$274,856 for the six months ended February 29, 2012. The change is mainly the result of share purchase warrants exercised during the second quarter of fiscal 2012 and the reimplementation of the share buyback program during the second fiscal quarter of 2013 and the subsequent repurchase of shares for return to the treasury.

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## RECENT ACCOUNTING PRONOUNCEMENTS

### *Recently adopted accounting pronouncements*

In February 2013, the FASB issued Accounting Standards Update 2013-02, Other Comprehensive Income (Topic 220). The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This accounting standard update is effective prospectively for annual and interim periods beginning after December 15, 2012. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES

We prepare our interim consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, 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.

### *Revenue Recognition*

We recognize revenue in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 985-605, Revenue Recognition. Accordingly, revenue is recognized when there is persuasive evidence of an arrangement, delivery to the customer has occurred, the fee is fixed and determinable, and collectability is considered probable.

The majority of our revenue is generated from digital media distribution service. The service is billed on usage which is based on the volume and size of distributions provided on a monthly basis. All revenues are recognized on a monthly basis as the services are delivered to customers, except where extended payment terms exist. Such revenues are only recognized when the extended payment term expires.

At present, the Company does not have yet have a standard business practice for contracts that contain extended payment terms, and therefore recognizes revenue from such contracts when the payment terms lapse and all other revenue criteria have been met.

Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If we made different judgments or utilized different estimates for any period material differences in the amount and timing of revenue recognized could result.

### *Stock-Based Compensation*

We recognize the costs of employee services received in share-based payment transactions according to the fair value provisions of the current share-based payment guidance. The fair value of employee services received in stock-based

payment transactions is estimated at the grant date and recognized over the requisite service period. Determining the appropriate fair value model and calculating the fair value of stock-based awards requires judgment, including estimating stock price volatility, forfeiture rates and expected life.

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We selected the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value of our share-based awards. The Black-Scholes model requires the use of highly subjective and complex assumptions which determine the fair value of share-based awards, including the option's expected term and the price volatility of the underlying stock. Our current estimate of volatility is based on historical and market-based implied volatilities of our stock price. To the extent volatility of our stock price increases in the future, our estimates of the fair value of options granted in the future could increase, thereby increasing stock-based compensation cost recognized in future periods. We derive the expected term assumption primarily based on our historical settlement experience, while giving consideration to options that have not yet completed a full life cycle. Stock-based compensation cost is recognized only for awards ultimately expected to vest. Our estimate of the forfeiture rate is based primarily on our historical experience. To the extent we revise this estimate in the future, our share-based compensation cost could be materially impacted in the quarter of revision, as well as in the following quarters. In the future, as empirical evidence regarding these input estimates is available to provide more directionally predictive results, we may change or refine our approach of deriving these input estimates.

### ***Research and Development Expense for Software Products***

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

Significant management judgments and estimates must be made in connection with determination of any amounts identified for capitalization as software development costs in any accounting period. If we made different judgments or utilized different estimates for any period material differences in the amount and timing of capitalized development costs could occur.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

We extend credit to our customers based on evaluation of an individual customer's financial condition and collateral is generally not required. Accounts outstanding beyond the contractual payment terms are considered past due. We determine our allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are beyond the contractual payment terms, our previous loss history, and a customer's current ability to pay its obligation to us. We write-off accounts receivable when they are identified as uncollectible. All outstanding accounts receivable accounts are periodically reviewed for collectability on an individual basis.

### ***Income Taxes***

Deferred income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates by tax jurisdiction at each balance sheet date. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We evaluate all available evidence, such as recent and expected future operating results by tax jurisdiction, and current and enacted tax legislation and other temporary differences between book and tax accounting to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. There is a risk that management estimates for operating results could vary significantly from actual results, which could materially affect the valuation of the future income tax asset. Although the Company has tax loss carry-forwards and other deferred income tax assets, management has determined certain of these deferred

tax assets do not meet the more likely than not criteria, and accordingly, these deferred income tax asset amounts have been partially offset by a valuation allowance as disclosed in Note 6 of our annual consolidated financial statements for the year ended August 31, 2012.

If management's estimates of the cash flows or operating results do not materialize due to errors in estimates or unforeseen changes to the economic conditions affecting the Company, it could result in an impairment adjustment in future periods up to the carrying value of the deferred income tax balance of \$882,000.

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### *Contingencies*

As discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Note 8 "Contingencies" in Notes to Interim Consolidated Financial Statements, the Company is subject from time to time to various legal proceedings and claims that arise in the ordinary course of business. In accordance with US GAAP, the Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In management's opinion, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. Should the Company fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

### *Impairment of Long-Lived Assets*

We evaluate the recoverability of our long-lived assets including tangible assets in accordance with authoritative guidance. When events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, we recognize such impairment in the event the carrying amount of such assets exceeds the future undiscounted cash flows attributable to such assets. We have not recorded any impairment losses to date.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Foreign Exchange Risk**

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted to the extent they are not hedged by the rise and fall of the relative values of Canadian dollar to these currencies. During the six months ended February 28, 2013, net fluctuations in the value of the Canadian dollar, Australian dollar and Euro relative to the US dollar compared to the six months ended February 29, 2012 resulted in a net decrease of net income of approximately \$56,000.

## **ITEM 4. CONTROLS AND PROCEDURES.**

The Company's management, with the participation of its principal executive officer and principal financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as at February 28, 2013.

Based on that evaluation, the Company's principal executive officer and principal financial officer have concluded that there are material weaknesses in internal controls over financial reporting, which are as follows:

- Due to the limited number of staff resources, the Company believes there are instances where a lack of segregation of duties exist to provide effective controls;
- Our audit committee does not have a financial expert and is not independent; and
- Due to the limited number of staff resources, the Company may not have the necessary in-house knowledge to address complex accounting and tax issues that may arise.

As a result of these weaknesses, the Company's disclosure controls are not effective. The weaknesses and their related risks are not uncommon in a company the size of Destiny Media because of limitations in size and number of staff.





There have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On November 8, 2011, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia from Noramco Capital Corporation for \$100,000. The claim asserts that the Company has repudiated a subscription agreement entered into in August 2000. Management believes the claim is without merit and that the likelihood that the outcome of this matter will have a material adverse impact on its result of operations, cash flows and financial condition of the Company is remote. The Company has filed a counterclaim against Noramco and the alleged major beneficial shareholder of Noramco, R. A. Bruce McDonald for damages arising from a proposed private placement in 2000 which did not close. On March 4, 2013, Mr. McDonald passed away. The implications for the outstanding litigation are unclear.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Item 1 Risk Factors in our Form 10-K for the fiscal year ended August 31, 2012 filed with the SEC on November 29, 2012. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially, however, they are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

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

#### ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers.***

On December 6, 2012, the board of directors authorized a new tranche to repurchase up to 1,000,000 shares of the Company's common stock at a maximum share purchase price of \$1.00 per share. Repurchases will be at times and in amounts as the Company deems appropriate and will be made through open market transactions. All repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. The board approved stock repurchase program runs through May 31, 2013. In addition to the applicable securities laws, the Company will not make any purchases during a time at which its insiders are subject to a blackout from trading in the Company's common shares.

As at April 15, 2013, the Company had repurchased 156,650 common shares returned to the treasury for cancellation pursuant to this stock repurchase program.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not Applicable

### **Item 5. Other Information**

None

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**Item 6. EXHIBITS.**

|                      |   |
|----------------------|---|
| <u>Exhibit 31.1:</u> | <u>Certification required by Rule 13a-14(a) or Rule 15d-14(a) Certification executed by Steven Vestergaard, Chief Executive Officer</u>   |
| <u>Exhibit 31.2:</u> | <u>Certification required by Rule 13a-14(a) or Rule 15d-14(a) Certification executed by Frederick Vandenberg, Chief Financial Officer</u>   |
| <u>Exhibit 32.1</u>  | <u>Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 Certification executed by Steven Vestergaard, Chief Executive Officer</u>   |
| <u>Exhibit 32.2</u>  | <u>Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 Certification executed by Frederick Vandenberg, Chief Financial Officer</u> |

**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: April 15, 2013

/s/Steven Vestergaard  
Steven Vestergaard, Chief Executive Officer  
and

/s/Fred Vandenberg  
Frederick Vandenberg, Chief Financial Officer

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