

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-Q  
July 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 nine months ended May 31, 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  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

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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 July 12, 2013.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS.**

Condensed Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Nine months ended May 31, 2013

(Expressed in United States dollars)

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## Destiny Media Technologies Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

Unaudited

As at

	May 31, 2013	August 31, 2012
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	1,225,754	1,275,423
Accounts receivable, net of allowance for doubtful accounts of \$11,605 [August 31, 2012 \$6,053]	603,509	440,053
Other receivables	13,686	48,508
Current portion of long term receivable [note 3]	105,062	104,056
Prepaid expenses	32,990	27,059
Deferred tax assets - current portion	258,000	258,000
<b>Total current assets</b>	<b>2,239,001</b>	<b>2,153,099</b>
Deposits	36,279	37,847
Long term receivable [note 3]	504,841	625,098
Property and equipment, net	242,720	287,958
Deferred tax assets - long term portion	616,000	689,000
<b>Total assets</b>	<b>3,638,841</b>	<b>3,793,002</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable	59,796	199,930
Accrued liabilities	225,374	250,623
Deferred leasehold inducement	7,364	5,843
Deferred revenue	59,775	55,671
<b>Total liabilities</b>	<b>352,309</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 and outstanding: 51,961,922 shares		
[August 31, 2012 issued and outstanding 52,091,004 shares]	51,962	52,091
Additional paid-in capital	8,911,269	9,008,957
Accumulated deficit	(5,813,187)	(6,013,030)
Accumulated other comprehensive income	136,488	232,917
<b>Total stockholders equity</b>	<b>3,286,532</b>	<b>3,280,935</b>
<b>Total liabilities and stockholders equity</b>	<b>3,638,841</b>	<b>3,793,002</b>

See accompanying notes

## Destiny Media Technologies Inc.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME**

(Expressed in United States dollars)

Unaudited

	<b>Three Months Ended May 31, 2013 \$</b>	Three Months Ended May 31, 2012 \$	<b>Nine Months Ended May 31, 2013 \$</b>	Nine Months Ended May 31, 2012 \$
<b>Revenue</b> <i>[note 10]</i>	<b>873,866</b>	1,022,921	<b>2,818,055</b>	3,042,363
<b>Operating expenses</b>				
General and administrative <i>[note 3]</i>	<b>285,857</b>	(469,548)	<b>675,454</b>	439,574
Sales and marketing	<b>207,492</b>	162,146	<b>651,092</b>	554,816
Research and development	<b>336,083</b>	492,041	<b>1,193,515</b>	1,456,435
Amortization	<b>28,746</b>	24,248	<b>84,792</b>	54,987
	<b>858,178</b>	208,887	<b>2,604,853</b>	2,505,812
Income from operations	<b>15,688</b>	814,034	<b>213,202</b>	536,551
<b>Other income (expenses)</b>				
Other income		4,462		4,462
Interest income	<b>18,907</b>	22,648	<b>59,641</b>	27,619
Interest and other expense		(6)		(1,186)
<b>Income before income taxes</b>	<b>34,595</b>	841,138	<b>272,843</b>	567,446
Income tax expense - deferred	<b>8,000</b>	190,000	<b>73,000</b>	190,000
<b>Net Income</b>	<b>26,595</b>	651,138	<b>199,843</b>	377,446
<b>Other comprehensive income (loss), net of tax</b>				
Foreign currency translation adjustments	<b>(13,465)</b>	(44,320)	<b>(96,429)</b>	(63,174)
<b>Total comprehensive income</b>	<b>13,130</b>	606,818	<b>103,414</b>	314,272
<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>51,961,922</b>	51,881,309	<b>52,021,101</b>	50,955,546
<b>Diluted</b>	<b>52,651,928</b>	52,663,722	<b>52,703,717</b>	51,362,308

*See accompanying notes*

## Destiny Media Technologies Inc.

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(Expressed in United States dollars)

Unaudited

	Common stock		Additional	Shares	Accumulated	Accumulated	Total
	Shares	Amount	paid-in	held	Deficit	other	stockholders
	#	\$	capital	for cancellation	\$	comprehensive	equity
			\$	\$		income	\$
<b>Balance, August 31, 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 comprehensive income					563,003	9,600	572,603
Common stock issued on options exercised	24,225	24	(24)				
Common stock issued on warrants exercised	1,579,202	1,579	277,171				278,750
Stock options repurchased and cancelled			(19,080)				(19,080)
Common stock cancelled		(125)	(49,951)	50,076			
Stock compensation			42,797				42,797
<b>Balance, August 31, 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 comprehensive income					199,843	(96,429)	103,414
Common stock issued on options exercised Note 4	27,568	28	(28)				
Common stock cancelled Note 4	(156,650)	(157)	(99,605)				(99,762)
Stock compensation Note 4			1,945				1,945
<b>Balance, May 31, 2013</b>	<b>51,961,922</b>	<b>51,962</b>	<b>8,911,269</b>		<b>(5,813,187)</b>	<b>136,488</b>	<b>3,286,532</b>

*See accompanying notes*

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## Destiny Media Technologies Inc.

**CONDENSED CONSOLIDATED STATEMENTS OF  
CASH FLOWS**

(Expressed in United States dollars)

Unaudited

Nine months ended,	May 31, 2013	May 31, 2012
	\$	\$

**OPERATING ACTIVITIES**

Net income	199,843	377,446
Items not involving cash:		
Amortization	84,792	54,987
Stock-based compensation	1,945	42,797
Deferred leasehold inducement	1,820	957
Deferred income taxes	73,000	190,000
Unrealized foreign exchange	17,396	34,027
Changes in non-cash working capital:		
Accounts receivable	(187,588)	(154,994)
Other receivables	33,878	38,865
Prepaid expenses and deposits	(7,281)	12,716
Accounts payable	(136,288)	37,833
Accrued liabilities	(15,528)	(39,756)
Deferred revenue	6,618	2,318
Long term receivable	74,539	(760,174)
<b>Net cash provided by (used in) operating activities</b>	<b>147,146</b>	<b>(162,978)</b>

**INVESTING ACTIVITIES**

Purchase of property and equipment	(50,403)	(145,576)
<b>Net cash used in investing activities</b>	<b>(50,403)</b>	<b>(145,576)</b>

**FINANCING ACTIVITIES**

Repayments on capital lease obligations		(3,913)
Proceeds from options/warrants exercised		278,750
Repurchase of common stock	(99,762)	(19,080)
<b>Net cash provided by (used in) financing activities</b>	<b>(99,762)</b>	<b>255,757</b>

<b>Effect of foreign exchange rate changes on cash</b>	<b>(46,650)</b>	<b>(45,800)</b>
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<b>Net decrease in cash during the period</b>	<b>(49,669)</b>	<b>(98,597)</b>
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Cash, beginning of the period	1,275,423	1,238,173
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<b>Cash, end of the period</b>	<b>1,225,754</b>	<b>1,139,576</b>
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**Supplementary disclosure**

Interest paid		1,186
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Income taxes paid		
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*See accompanying notes*

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 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 condensed 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 nine months ended May 31, 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 CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 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 May 31, 2013, installments of \$282,650AUD and interest of \$89,543AUD had been received.

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 (\$)	Interest (\$)	Total (\$)
2013	25,269	15,414	40,683
2014	107,777	54,955	162,732
2015	119,359	43,373	162,732
2016	132,185	30,547	162,732
2017	146,389	16,343	162,732
Thereafter	78,924	2,375	81,299
	609,903	163,007	772,910

**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 nine months ended May 31, 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 CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2013

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

**[b] Common stock cancelled**

On December 6, 2012, the board of directors authorized for repurchase a new tranche of 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 nine months ended May 31, 2013, the Company repurchased and cancelled 156,650 shares.

During the nine months ended May 31, 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 2,094,716 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 CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2013

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

A summary of option activity under the Plans as of May 31, 2013, and changes during the period ended are presented below:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value \$</b>
<b>Outstanding at August 31, 2012</b>	<b>1,800,000</b>	<b>0.48</b>	<b>1.57</b>	<b>802,500</b>
Granted	75,000	0.85		
<b>Outstanding at May 31, 2013</b>	<b>1,875,000</b>	<b>0.49</b>	<b>0.82</b>	<b>836,250</b>
<b>Vested and exercisable at May 31, 2013</b>	<b>1,815,625</b>	<b>0.48</b>	<b>0.82</b>	<b>830,906</b>

The following table summarizes information regarding the non-vested stock purchase options outstanding during the nine months ended May 31, 2013:

	<b>Number of Options</b>
<b>Non-vested options at August 31, 2012</b>	
Granted	75,000
Vested	(15,625)
<b>Non-vested options at May 31, 2013</b>	<b>59,375</b>

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 May 31, 2013.

During the three and nine months ended May 31, 2013 and May 31, 2012, stock-based compensation expense has been reported in the statement of operations as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>May 31 2013</b>	<b>May 31 2012</b>	<b>May 31 2013</b>	<b>May 31 2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Stock-based compensation:</b>				
General and administrative	<b>1,945</b>	42	<b>1,945</b>	6,713
Sales and marketing		44		7,133
Research and development		179		28,951
<b>Total stock-based compensation</b>	<b>1,945</b>	<b>265</b>	<b>1,945</b>	<b>42,797</b>

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 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>Nine Months Ended</b>	
	<b>May 31 2013</b>	<b>May 31 2012</b>	<b>May 31 2013</b>	<b>May 31 2012</b>
Expected term of stock options (years)	0.37-0.46		0.37-0.46	1
Expected volatility	49%-54%		49%-54%	41%-46%
Risk-free interest rate	0.07%-0.09%		0.07%-0.09%	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 nine months ended May 31, 2013, the Company entered into a consulting agreement with a nonemployee to provide investor relations consulting services and maximize shareholder value. As part of the agreement, the Company has issued 75,000 options exercisable at \$0.85. The options vest equally over twelve months following the signing of the agreement on March 15, 2013. The vested options of 15,625 during the nine months ended May 31, 2013 was measured using the Black-Scholes option-pricing model and amounted to \$1,945. The amount was expensed to general and administrative in the statement of operations.

During the nine months ended May 31, 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 nine month period ended May 31, 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 \$42,797 on the statements of operations during the nine months ended May 31, 2012.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 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 nine months ended May 31, 2013, the Company recognized compensation expense of \$89,286 (May 31, 2012: \$78,180) 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 (May 31, 2012: \$0.52). 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	58,787
2014	39,191

During the nine months ended May 31, 2013 the Company incurred rent expense of \$148,730 (May 31, 2012: \$172,335) 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 of \$48,400 (\$50,000 CDN). Borrowings under the facilities are repayable on demand.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 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 nine months ended May 31, 2013, the Company paid consulting fees of \$18,000 (May 31, 2012: \$18,000) 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 May 31, 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 CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 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.

*Accounting Standards Not Yet Effective*

In March 2013, the FASB issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830) . The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The Company is currently evaluating the impact of this update on the consolidated financial statements.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 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>Nine Months Ended</b>	
	<b>May 31 2013</b>	<b>May 31 2012</b>	<b>May 31 2013</b>	<b>May 31 2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>MPE®</b>				
North America	<b>327,278</b>	519,211	<b>1,308,128</b>	1,526,881
Europe	<b>485,619</b>	428,723	<b>1,284,633</b>	1,280,659
Australasia	<b>32,542</b>	37,463	<b>102,341</b>	109,328
Total MPE®	<b>845,439</b>	985,397	<b>2,695,102</b>	2,916,868
<b>Clipstream ® &amp; Pirate Radio</b>				
North America	<b>28,427</b>	37,524	<b>122,953</b>	125,495
Outside of North America				
Total Clipstream ® & Pirate Radio	<b>28,427</b>	37,524	<b>122,953</b>	125,495
<b>Total revenue</b>	<b>873,866</b>	1,022,921	<b>2,818,055</b>	3,042,363

During the nine months ended May 31, 2013, one customer represented 52% of the total revenue balance [May 31, 2012 - two customers represented 56%].

As at May 31, 2013, one customer represented \$418,747 (69%) 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.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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 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 four 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.

The Company has a core business distributing secure pre-release music and music videos to trusted recipients on behalf of the major record labels and has completed R&D on a new player-less streaming video product, Clipstream®. A number of products are being built around this streaming video engine, with the first expected to launch in the first quarter of 2014. Expenses associated with this initiative have been expensed, while patent expenses have been capitalized.

Clipstream® is a disruptive technology that delivers streaming video in a manner that solves a number of industry challenges and has a number of significant advantages over other video technologies. Videos in the new Clipstream® format will play on most browsers, reducing or eliminating the need to transcode or host multiple formats and will reach more users and more devices. Because it is served by a web server rather than a proprietary streaming server, it will cache, substantially reducing costs associated with bandwidth and infrastructure costs. With no players to download or install and native support from all modern browsers, Clipstream® encoded content will have the highest play rate (35% higher than H.264, the next most common format across computers and devices). Unlike other HTML 5 solutions, Clipstream® content can easily be secured from unauthorized viewing or duplication to unauthorized domains. Finally, videos encoded in our format are expected to have the greatest longevity as future browser standards will ensure play back in browsers.

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## **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.

## **RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED MAY 31, 2013**

### **Revenue**

Total revenue for the nine months ended May 31, 2013 declined 7.4% over the same period in the prior year to \$2,818,055 (May 31, 2012 - \$3,042,363).

Revenue from the Play MPE® system, which represents approximately 96% of our total revenues, fell by 7.6% for the nine months ended May 31, 2013 compared with the same period in the prior year to \$2,695,102 (May 31, 2012 - \$2,916,868). The decrease for the nine-month period is attributable to various terms reached in a renewed agreement with Universal Music Group (UMG). Amongst other things, the two-year renewal was restructured to reduce the amount that is considered chargeable usage and provides a global monthly committed usage rather than individual territory commitments. Further, revenue associated with UMG distributions of EMI content is now included under this agreement and also contributes the reduction. This restructuring was necessary to facilitate the expansion of UMG s usage into new territories and facilitates a broader coverage in existing territories. Revenue associated with this agreement is currently at the monthly committed usage and should only increase in future periods.

There were a number of positive impacts for Play MPE® revenue which partially offset this decline. In Scandinavia, Play MPE® has shown strong growth with other major labels (46% growth over the prior period) and independent labels (75% growth over the prior period) in spite of decline in the relative value of the Euro. In the United States, Play MPE® continues to see growth in independent label revenue (2%), and non-UMG major labels (3%).

Approximately 48% of our Play MPE® revenue is denominated in Euros for the nine months ended May 31, 2013. European revenue is currently concentrated in the United Kingdom and the Scandinavian countries. Approximately 48% of Play MPE® revenue is denominated in US Dollars and 3% of Play MPE® revenue is denominated in Australia Dollars for the nine months ended May 31, 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.

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Total operating expenditures in the prior year were significantly impacted by litigation through both the legal fees incurred and the settlement that it applied to reduce total legal fees. Comparing the two periods without describing this impact is less meaningful. Ignoring the impact of all litigation total operating costs were \$2,577,453 for the nine-month period ending May 31, 2013 and \$2,757,412 for the same period in fiscal 2012. Therefore, ignoring the impact of various legal disputes that have been substantially resolved, operating costs have fallen by 6.5%.

These cost reductions are primarily the result of a reduction in foreign exchange gains, and a reduction in contract expenditures and salaries and wages. These reductions were achieved through more efficient staffing, and a reduction in non-cash option expenditures.

Including all operating costs, total operating expenditures for the nine months ended May 31, 2013 have increased by 4.0% over the same period in the prior year to \$2,604,853 (May 31, 2012 - \$2,505,812).

<b>General and administrative</b>	<b>31-May 2013</b>	<b>31-May 2012</b>	<b>\$ Change</b>	<b>% Change</b>
	(9 months)	(9 months)		
	\$	\$		
Wages and benefits	290,067	293,310	(3,243)	(1.1%)
Rent	24,156	27,033	(2,877)	(10.6%)
Telecommunications	13,262	13,758	(496)	(3.6%)
Bad debt	5,893	(4,958)	10,851	(218.9%)
Office and miscellaneous	204,476	292,224	(87,748)	(30.0%)
Professional fees	137,600	(181,793)	319,393	(175.7%)
	675,454	439,574	235,880	53.7%

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 cash and accounts receivable balances denominated in that currency.

The increase in professional fees is the result of the recovery of litigation costs in 2012 that resulted in a negative net expenditure for the comparative period.

<b>Sales and marketing</b>	<b>31-May 2013</b>	<b>31-May 2012</b>	<b>\$ Change</b>	<b>% Change</b>
	(9 months)	(9 months)		
	\$	\$		
Wages and benefits	440,487	323,179	117,308	36.3%
Rent	36,682	28,723	7,959	27.7%
Telecommunications	20,140	14,618	5,522	37.8%
Meals and entertainment	9,058	9,671	(613)	(6.3%)
Travel	35,108	56,037	(20,929)	(37.3%)
Advertising and marketing	109,617	122,588	(12,971)	(10.6%)
	651,092	554,816	96,276	17.4%

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>31-May 2013</b>	<b>31-May 2012</b>	<b>\$ Change</b>	<b>% Change</b>
	(9 months)	(9 months)		
	\$	\$		
Wages and benefits	1,055,430	1,264,904	(209,474)	(16.6%)
Rent	87,892	116,580	(28,688)	(24.6%)
Telecommunications	49,329	59,333	(10,004)	(16.9%)
Research and development	864	15,618	(14,754)	(94.5%)
	1,193,515	1,456,435	(262,920)	(18.1%)

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The decrease in wages and benefits is mainly due to the Company's focus on marketing and promotional activities from our existing development staff as described above. Rent expense has decreased as a result of a rent abatement received during the second fiscal quarter of this year. 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 \$84,792 for the nine months ended May 31, 2013 from \$54,987 for the nine months ended May 31, 2012, an increase of \$29,805 or 54.2% 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 \$59,641 for the nine months ended May 31, 2013 from \$27,619 for the nine months ended May 31, 2012, an increase of \$32,022. 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 nine months ended May 31, 2013 from \$1,186 for the nine months ended May 31, 2012, a decrease of \$1,186.

**Net income**

During the nine months ended May 31, 2013 we have net income of \$199,843 (May 31, 2012 net income of \$377,446). The decrease in net income during the period is the recovery of litigation costs in the comparative period and decreased revenue resulting from less usage, partially offset by decreased salaries and wages costs due to lower stock compensation cost and foreign exchange gains mostly as a result of fluctuations in the value of the Euro.

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 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Net Income</b>	377,952	12,555	(286,250)	651,138	185,560	160,050	13,198	26,595
Amortization and stock compensation	18,625	15,785	57,485	24,513	34,220	27,656	28,390	30,692
Deduct interest income	(4,918)	(2,178)	(1,613)	(22,642)	(20,434)	(20,666)	(20,068)	(18,907)
Income tax	67,000	5,000	(5,000)	190,000	18,000	65,000		8,000
<b>Adjusted EBITDA</b>	458,659	31,162	(235,378)	843,009	217,346	232,040	21,520	46,380

**LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$1,225,754 as at May 31, 2013 (August 31, 2012 - \$1,275,423). We had working capital of \$1,886,692 as at May 31, 2013 compared to working capital of \$1,641,032 as at August 31, 2012. The increase in our working capital was mainly due to a decrease in our accounts payable.

**CASHFLOWS**

Net cash provided by operating activities was \$147,146 for the nine months ended May 31, 2013, compared to net cash used of \$162,978 for the nine months ended May 31, 2012. The main reason for the increase in net cash flows provided in the operating activities was primarily due to the decrease in total operating cost without the impact of the litigation settlement in comparative period.

The cash used in investing activities was \$50,403 for the nine months ended May 31, 2013. The net cash used in investing activities was \$145,576 for the nine months ended May 31, 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.

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Net cash used in financing activities was \$99,762 for the nine months ended May 31, 2013 compared to net cash provided of \$255,757 for the nine months ended May 31, 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.

## **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.

### ***Accounting Standards Not Yet Effective***

In March 2013, the FASB issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830). The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The Company is currently evaluating the impact of this update on the consolidated financial statements.

## **CRITICAL ACCOUNTING POLICIES**

We prepare our interim condensed 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.

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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.

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.

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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 \$874,000.

### *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 Condensed 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 nine months ended May 31, 2013, net fluctuations in the value of the Canadian dollar, Australian dollar and Euro relative to the US dollar compared to the nine months ended May 31, 2012 resulted in a net decrease of net income of approximately \$39,000.

## **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 May 31, 2013.

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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.

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As at July 15, 2013, the Company had repurchased and cancelled 156,650 common shares 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

**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: July 15, 2013

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

/s/Fred Vandenberg  
Frederick Vandenberg, Chief Financial Officer

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