

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-Q  
January 17, 2012

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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 three months ended November 30, 2011

**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 \_\_\_

(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

(Do not check if a smaller reporting company)

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

**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:

**50,487,577 Shares of \$0.001 par value common stock outstanding as of January 13, 2012.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS.**

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Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Three months ended November 30, 2011

(Expressed in United States dollars)

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## Destiny Media Technologies Inc.

**CONSOLIDATED BALANCE SHEETS**(Expressed in United States Dollars, except for share data)  
Unaudited

As at

	<b>November 30, 2011</b>	August 31, 2011
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	<b>1,000,710</b>	1,238,173
Accounts receivable, net of allowance for doubtful accounts of \$25,189 [Aug 31, 2011 \$23,513] [note 9]	<b>543,025</b>	385,629
Other receivables	<b>92,114</b>	62,779
Prepaid expenses	<b>1,769</b>	23,583
Deposits		10,223
Deferred tax assets – current portion	<b>286,000</b>	286,000
<b>Total current assets</b>	<b>1,923,618</b>	2,006,387
Deposits	<b>36,342</b>	38,349
Property and equipment, net	<b>161,855</b>	144,401
Deferred tax assets – long term portion	<b>864,000</b>	869,000
<b>Total assets</b>	<b>2,985,815</b>	3,058,137
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable	<b>350,521</b>	293,552
Accrued liabilities	<b>223,400</b>	311,797
Deferred leasehold inducement	<b>5,611</b>	4,934
Deferred revenue	<b>40,171</b>	37,954
Obligation under capital leases – current portion [note 4]	<b>888</b>	4,035
<b>Total current liabilities</b>	<b>620,591</b>	652,272
<b>Total liabilities</b>	<b>620,591</b>	652,272
Commitments and contingencies [notes 4 and 7]		
<b>Stockholders equity</b>		
Common stock, par value \$0.001 [note 3]		
Authorized: 100,000,000 shares		
Issued and outstanding: 50,487,577 shares		
[August 31, 2011 – issued 50,612,507 and outstanding 50,487,577 shares]	<b>50,488</b>	50,613
Additional paid-in capital	<b>8,709,503</b>	8,758,044
Shares held for cancellation		(50,076)
Accumulated Deficit	<b>(6,563,478)</b>	(6,576,033)
Accumulated other comprehensive income	<b>168,711</b>	223,317
<b>Total stockholders equity</b>	<b>2,365,224</b>	2,405,865
<b>Total liabilities and stockholders equity</b>	<b>2,985,815</b>	3,058,137
<i>See accompanying notes</i>		



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Expressed in United States dollars)

Unaudited

	<b>Three Months Ended November 30, 2011 \$</b>	Three Months Ended November 30, 2010 \$
<b>Service revenue</b> <i>[note 9]</i>	<b>1,124,617</b>	1,056,638
<b>Operating expenses</b>		
General and administrative	<b>477,878</b>	364,169
Sales and marketing	<b>198,873</b>	215,499
Research and development	<b>418,114</b>	363,903
Depreciation and amortization	<b>14,375</b>	16,693
	<b>1,109,240</b>	960,264
Income from operations	<b>15,377</b>	96,374
<b>Other income (expenses)</b>		
Interest income	<b>2,812</b>	2,774
Other income		2,992
Interest and other expense	<b>(634)</b>	(277)
<b>Income before provision for income taxes</b>	<b>17,555</b>	101,863
Deferred income tax expense	<b>(5,000)</b>	(29,000)
<b>Net income</b>	<b>12,555</b>	72,863
<b>Net income per common share, basic and diluted</b>	<b>0.00</b>	0.00
<b>Weighted average common shares outstanding:</b>		
<b>Basic</b>	<b>50,487,577</b>	50,873,693
<b>Diluted</b>	<b>50,709,493</b>	51,357,595

*See accompanying notes*



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

(Expressed in United States dollars)

Unaudited

	Common stock Shares	Common stock Amount	Additional paid-in capital	Shares held for cancellation or cancelled	Accumulated Deficit	Accumulated other comprehensive income	Total stockholders equity
	#	\$	\$		\$	\$	\$
<b>Balance, August 31, 2010</b>	<b>51,143,847</b>	<b>51,145</b>	<b>9,049,308</b>		<b>(7,214,541)</b>	<b>173,457</b>	<b>2,059,369</b>
Net income for the year					638,508		638,508
Foreign currency translation gain						49,860	49,860
Comprehensive income							688,368
Common stock issued on options exercised	450,625	451	99,549				100,000
Common stock repurchased and cancelled	(981,965)	(983)	(399,796)				(400,779)
Common stock repurchased and held for cancellation	(124,930)			(50,076)			(50,076)
Stock compensation employees			8,983				8,983
<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>
Net income for the period					12,555		12,555
Foreign currency translation loss						(54,606)	(54,606)
Comprehensive loss							(42,051)
Common stock cancelled		(125)	(49,951)	50,076			
Stock compensation employees			1,410				1,410

<b>Balance, November 30, 2011</b>	<b>50,487,577</b>	<b>50,488</b>	<b>8,709,503</b>	<b>(6,563,478)</b>	<b>168,711</b>	<b>2,365,224</b>
<i>See accompanying notes</i>						

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## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

	<b>Three months Ended November 30, 2011 \$</b>	Three months Ended November 30, 2010 \$
<b>OPERATING ACTIVITIES</b>		
Net income	12,555	72,863
Items not involving cash:		
Depreciation and amortization	14,375	16,693
Stock-based compensation	1,410	1,564
Deferred leasehold inducement	952	473
Deferred income taxes	5,000	29,000
Changes in non-cash working capital:		
Accounts receivable	(180,638)	(75,711)
Other receivables	(33,182)	(37,032)
Prepaid expenses and deposits	30,790	(13,981)
Accounts payable	73,318	65,179
Accrued liabilities	(73,595)	(19,744)
Deferred revenue	4,275	(9,784)
<b>Net cash provided (used) by operating activities</b>	<b>(144,740)</b>	<b>29,520</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(39,816)	(44,439)
<b>Net cash used in investing activities</b>	<b>(39,816)</b>	<b>(44,439)</b>
<b>FINANCING ACTIVITIES</b>		
Repayments on capital lease obligations	(2,987)	(2,664)
Repurchase of stock and options		(250,537)
<b>Net cash used in financing activities</b>	<b>(2,987)</b>	<b>(253,201)</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(49,920)</b>	<b>19,470</b>
<b>Net decrease in cash during the period</b>	<b>(237,463)</b>	<b>(248,650)</b>
Cash, beginning of period	1,238,173	491,012
<b>Cash, end of period</b>	<b>1,000,710</b>	<b>242,362</b>
<b>Supplementary disclosure</b>		
Interest paid	634	277
Income taxes paid		
<i>See accompanying notes</i>		

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

**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 three months ended November 30, 2011 are not necessarily indicative of the results that may be expected for the year ended August 31, 2012.

The balance sheet at August 31, 2011 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, 2011.

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

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

**3. SHARE CAPITAL****[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.

**[b] Common stock cancelled**

During the three months ended November 30, 2011, the Company cancelled 124,930 shares which were repurchased during the last quarter of fiscal year of 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 1,466,334 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.

*Stock-Based Payment Award Activity*

A summary of option activity under the Plans as of November 30, 2011, and changes during the three month period ended are presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value \$
<b>Outstanding at August 31, 2011</b>	<b>2,290,000</b>	<b>0.50</b>	<b>0.99</b>	<b>25,500</b>
Granted				
Exercised				
Expired				
<b>Outstanding at November 30, 2011</b>	<b>2,290,000</b>	<b>0.50</b>	<b>0.74</b>	<b>28,500</b>
Vested and exercisable at November 30, 2011	<b>2,281,667</b>	<b>0.50</b>	<b>0.73</b>	<b>28,500</b>

2

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

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

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

The following table summarizes information regarding the non-vested stock purchase options outstanding as of November 30, 2011:

	<b>Number of Options</b>
<b>Non-vested options at August 31, 2011</b>	<b>14,583</b>
Vested	(6,250)
<b>Non-vested options at November 30, 2011</b>	<b>8,333</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 November 30, 2011.

During the three months ended November 30, 2011, total stock-based compensation expense related to employees of \$1,410 are reported in the statement of operations as follows:

	<b>November 30, 2011 \$</b>	November 30, 2010 \$
Stock-based compensation		
General and administrative	<b>616</b>	604
Sales and marketing	<b>256</b>	357
Research and development	<b>538</b>	603
<b>Total stock-based compensation</b>	<b>1,410</b>	1,564

*Valuation Assumptions*

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. During the three months ended November 30, 2011 and three months ended November 30, 2010, there were no options granted.

As of November 30, 2011 there was \$1,676 of unrecognized stock-based compensation cost related to employee stock options granted under the plans, which is expected to be fully recognized over the next 4 months.

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

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

**3. SHARE CAPITAL (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 three month ended November 30, 2011, the Company recognized compensation expense of \$10,486 (November 30, 2011: \$Nil) 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 \$0.41. The shares are held in trust by the Company for a period of one year from the date of purchase.

**[e] Warrants**

As at November 30, 2011, the Company has the following common stock warrants outstanding:

	<b>Number of Common Shares Issuable</b>	<b>Exercise Price \$</b>	<b>Date of Expiry</b>
\$0.22 Warrants	350,000	0.22	August 25, 2012
\$0.40 Warrants	361,000	0.40	February 28, 2012
\$0.50 Warrants	5,800,000*	0.50	February 28, 2012
\$0.70 Warrants	500,000	0.70	April 9, 2012
	7,011,000		

\*5,400,000 of the \$0.50 warrants have a forced conversion feature by which the Company can demand exercise of the share purchase warrants if the common shares trades at a price equal to or greater than \$1.25 if certain conditions are met. The warrant agreements also provide for a weighted average down round provision whereby the exercise price will be reduced in the event the Company issues options or warrants, excluding employee options, at a price per shares less than the fair market value of the Company's shares at the date of issuance.

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

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

The intrinsic value for these warrants is \$91,440 as at November 30, 2011.

**4. COMMITMENTS**

The Company is committed to make payments under its capital leases for the remaining terms of the leases as follows:

	\$
2012	899
Total lease payments	899
Less: Amounts representing interest	(11)
Current obligation	888

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:

	\$
2012	167,750
2013	228,342
2014	38,213

During the three month ended November 30, 2011 the Company incurred rent expense of \$56,919 (November 30, 2010: \$55,115) 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, the Company arranged for credit facilities with the Royal Bank of Canada which allows the Company to draw up to \$435,960 (\$450,000 CDN). These credit facilities consist of a revolving facility of \$387,520 (\$400,000 CDN) bearing interest at prime plus 3.5% and a commercial credit card facility to \$48,440 (\$50,000 CDN). Borrowings under the facilities are repayable on demand. As of November 30, 2011, the Company has received a letter of guarantee of \$99,680 (\$100,000 AUD) (November 30, 2010: \$Nil) on the revolving demand facility and has available credit of \$336,280 (November 30, 2010: \$440,960). The letter of guarantee expires July 6, 2012. No amount had been drawn on these facilities as at November 30, 2011 and 2010.



**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

**5. 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 three months ended November 30, 2011, the Company paid consulting fees of \$6,000 (November 30, 2010: \$4,000).

**6. INCOME TAX**

The Company adopted the provisions of ASC 740, Income taxes. The 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, 2011, the tax years which remain subject to examination by major tax jurisdictions as of November 30, 2011. 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.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

**7. CONTINGENCIES**

- a) On August 12, 2009 the Company received a statement of claim for wrongful dismissal. The claim is for approximately \$174,000 (\$180,000 CDN) plus an award of stock options and unspecified damages. The Company believes the claim is without merit. The matter was heard at trial subsequent to August 31, 2011 and management expects a decision shortly. Management believes it is unlikely that the outcome of this matter will have an adverse impact on its result of operations, cash flows and financial condition.
- b) On June 10, 2011, the Company commenced proceedings in the Federal Court of Australia against Shooting Star Picture Company Pty Ltd, Peter Skillman and D-Star Music Delivery Pty Ltd. (collectively the respondents ). The Company alleges various claims against the respondents including, amongst other things, breach of contract, misleading and deceptive conduct, breach of fiduciary duties, and breach of confidence. The company is presently seeking damages of at least AU\$1.5 to \$2.2 million.

The respondents have cross-claimed for approximately \$144,500 (AU\$145,000) plus a percentage of unspecified revenue the Company received from the Australian market during the year ended August 31, 2011. Management believes it is unlikely that the outcome of this matter will have an adverse impact on its result of operations, cash flows and financial condition of the Company.

- c) 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 plus interest. The claim asserts that the Company has repudiated a subscription agreement entered into in, or around, August 2000. Management believes the claim is without merit and that it is unlikely 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.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

**8. NEW ACCOUNTING PRONOUNCEMENTS**

**Recent adopted accounting pronouncements**

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation – Stock Compensation (Topic 718) . The objective of this Update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Specifically, an employee share-based payment award denominated in a currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance or service condition and therefore would not classify the award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this Update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. This standard is effective for the Company on September 1, 2011. The Company's adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

***Accounting Standards Not Yet Effective***

In May 2011, the FASB issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820) . This Update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and International Financial Reporting Standards ( IFRS ). The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and they explain how to measure fair value and they do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments in this Update apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income (Topic 220) . The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. generally accepted accounting

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

**8. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)**

principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this Update. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update 2011-12, Comprehensive Income (Topic 220). The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-5 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this update on the consolidated financial statements.

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

(Expressed in United States dollars)

Unaudited

Three months ended November 30, 2011 and 2010

**9. 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 November 30</b>	
	<b>2011</b>	<b>2010</b>
	\$	\$
<b>MPE®</b>		
United States	<b>546,031</b>	556,179
Europe	<b>504,061</b>	390,173
Australia	<b>37,367</b>	55,327
<b>Total MPE® Revenue</b>	<b>1,087,459</b>	1,001,679
<b>Clipstream ® and Radio Destiny</b>		
United States	<b>37,158</b>	54,959
<b>Total Clipstream ® &amp; Radio Destiny Revenue</b>	<b>37,158</b>	54,959
<b>Total Revenue</b>	<b>1,124,617</b>	1,056,638

During the three months ended November 30, 2011, three customers represented \$740,375 (66%) of the total revenue balance [November 30, 2010 three customers represented 66%].

As at November 30, 2011, two customers represented \$354,000 (66%) of the trade receivables balance [August 31, 2011 two customers represented 56%].

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, and MPE Distribution, Inc. a Nevada company that was incorporated in 2007. 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.

The current offerings include the Play MPE® secure distribution network, which the recording industry uses to distribute new pre-release music, and the Clipstream® instant play streaming media solutions.

Currently, more than 96% of the Company's revenues come from the Play MPE® digital distribution service. The remaining revenue is derived from recurring revenues for secure Clipstream® powered market research video questionnaires.



## **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®**

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.

## **RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2011**

### **Revenue**

Total revenue for the three months ended November 30, 2011 grew by approximately 6% over the same period in the prior year to \$1,124,617 (November 30, 2010 - \$1,056,638) despite a decline in Clipstream® revenue or 21% over the immediately preceding quarter.

Revenue from the Play MPE® system represents over 96% of our revenue. The Play MPE® system saw access fee revenue grow to \$1,087,459 (November 30, 2010 - \$1,001,679) for the three month period ending November 30, 2011 representing a 9% increase over the same period in the prior year or 21% over the immediately preceding quarter. The Play MPE® delivery service continues to see high growth in usage spread over Europe.

European revenue continues to grow but is concentrated mainly in the United Kingdom and the Scandinavian countries. In 2009, Play MPE® was translated into 25 languages to facilitate global expansion, however each region presents unique issues such as unique cultures, recipient preferences, privacy laws, political systems and requirements for local training, demonstration and representation. Our approach to global expansion is to address these concerns within the scope of our capacity and grow sequentially at each location while maintaining a superior product in our more successful areas. We work closely with the major labels as we work with their staff to rollout the system to their regional sub-labels around the world and to address local requirements.

For example, the Play MPE® system needed to be adjusted for Germany s unique privacy laws. This was completed during last year. As such, while the German language represents the second most commonly selected language, our European revenue does not yet include an appreciable amount from Germany. In Japan we reached an agreement with All Access Today Japan, Inc. ( AATJ ) in May 2011. As part of this agreement, AATJ will represent Play MPE® in



Japan.

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Approximately 46% of our Play MPE® revenue is denominated in Euros. Play MPE® revenue from Europe for the three months ended November 30, 2011 reached \$504,061 (November 30, 2010 - \$390,173) representing an increase of 29%. Approximately 50% of Play MPE® revenue is denominated in US Dollars and 4% of Play MPE® revenue is denominated in Australia Dollars.

## 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 three months ended November 30, 2011 has increased by 16% over the same period in the prior year to \$1,109,240 (2010 - \$960,264). Increased litigation costs, which represent 90% of our professional fees and are the primary contribution to increased costs, are expected to decrease through our second quarter and to be eliminated in the second half of fiscal 2012.

<b>General and administrative</b>	<b>30-Nov 2011</b>	<b>30-Nov 2010</b>	<b>\$ Change</b>	<b>% Change</b>
	(3 months)	(3 months)		
	\$	\$		
Wages and benefits	85,901	86,458	(557)	(0.6%)
Rent	9,107	9,770	(663)	(6.8%)
Telecommunications	4,643	5,292	(649)	(12.3%)
Bad debt	2,464	(77)	2,541	(3300.0%)
Office and miscellaneous	73,942	93,861	(19,919)	(21.2%)
Professional fees	301,821	168,865	132,956	78.7%
	477,878	364,169	113,709	31.2%

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

The increase in professional fees is due to an increase of in the volume of legal work primarily associated with an Australian claim against a former marketing representative, and a wrongful dismissal suit which was brought to trial during the quarter.

The decrease in office and miscellaneous is due to one time fees associated with TSX Venture listing application during the first quarter of fiscal 2010.

<b>Sales and marketing</b>	<b>30-Nov 2011</b>	<b>30-Nov 2010</b>	<b>\$ Change</b>	<b>% Change</b>
	(3 months)	(3 months)		
	\$	\$		
Wages and benefits	107,408	111,892	(4,484)	(4.0%)
Rent	9,676	10,381	(705)	(6.8%)
Telecommunications	4,933	5,623	(690)	(12.3%)
Meals and entertainment	1,556	2,108	(552)	(26.2%)
Travel	19,696	14,826	4,870	32.8%
Advertising and marketing	55,604	70,669	(15,065)	(21.3%)

198,873	215,499	(16,626)	(7.7%)
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Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. During the three months ended November 30, 2011, Play MPE® has continually received significant support from the world's largest record labels and achieved symbiotic relationships with partners within the music industry resulting in cost effective and organic marketing efforts and the marketing cost has been effectively under control. We expect that the business relationships we have developed will provide catalysts to global expansion and barriers to entry with potential competitors should they arise.

<b>Research and development</b>	<b>30-Nov 2011</b>	<b>30-Nov 2010</b>	<b>\$ Change</b>	<b>% Change</b>
	(3 months)	(3 months)		
	\$	\$		
Wages and benefits	359,709	309,401	50,308	16.3%
Rent	38,136	34,964	3,172	9.1%
Telecommunications	19,443	18,938	505	2.7%
Research and development	826	600	226	37.7%
	418,114	363,903	54,211	14.9%

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 increase is mainly due to increased staffing due to an increased ongoing investment in building out the functionality of our Play MPE® and the development of two new Clipstream® service offerings, which have yet to launch.

#### **Amortization**

Amortization expense arose from property and equipment. Amortization decreased to \$14,375 for the three months ended November 30, 2011 from \$16,693 for the three months ended November 30, 2010, a decrease of \$2,318 or 14%.

#### **Other earnings and expenses**

Other income decreased to Nil for the three months ended November 30, 2011 from \$2,774 for the three months ended November 30, 2010, a decrease of \$2,774.

Interest income decreased to \$2,812 for the three months ended November 30, 2011 from \$2,992 for the three months ended November 30, 2010, a decrease of \$180.

Interest expense increased to \$634 for the three months ended November 30, 2011 from \$277 for the three months ended November 30, 2010, an increase of \$357.

#### **Net income**

During the three months ended November 30, 2011, we have net income of \$12,555 (November 30, 2010 net income of \$72,863). The decrease in net income during the period is the result of increased expenses of professional fees, increased shareholder relations events and increased salaries and wages costs due to additional staff. Earnings before interest income and expenses, taxes, depreciation and amortization and stock based compensation (Adjusted EBITDA) was \$31,162 for the three months ended November 30, 2011 (November 30, 2010 -\$117,623).

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:

	2011 Q1 \$	2011 Q2 \$	2011 Q3 \$	2011 Q4 \$	2012 Q1 \$
<b>Net Income</b>	72,863	(43,027)	230,720	377,952	12,555
Amortization and stock compensation	18,257	15,497	14,943	18,625	15,785
Net Interest expense	(2,497)	(2,100)	(1,302)	(4,918)	(2,178)
Income tax	29,000	(17,000)	94,000	67,000	5,000
<b>Adjusted EBITDA</b>	117,623	(46,630)	338,361	458,659	31,162

## LIQUIDITY AND FINANCIAL CONDITION

We had cash of \$1,000,710 as at November 30, 2011 (August 31, 2011 - \$1,238,173). The decrease in our cash was mainly due to an increase in operating costs, timely payment on accounts payment and increased accounts receivable. We had working capital of \$1,303,027 as at November 30, 2011 compared to working capital of \$1,354,115 as at August 31, 2011.

## CASHFLOWS

Net cash used in operating activities was \$144,740 for the three months ended November 30, 2011, compared to net cash generated of \$29,520 for the three months ended November 30, 2010. Although our revenue was higher than the comparable period in 2010, the main decrease in net cash flows in the operating activities was primarily due to an increase in operating costs, timely payment on accounts payable and an increase in accounts receivable.

The cash used in investing activities was \$39,816 for the three months ended November 30, 2011. The net cash used in investing activities was \$44,439 for the three months ended November 30, 2010.

Net cash used in financing activities was \$2,987 for the three months ended November 30, 2011 compared to \$253,201 for the three months ended November 30, 2010. The increase is mainly the result of repurchasing common shares outstanding in the first quarter of fiscal 2011.

## RECENT ACCOUNTING PRONOUNCEMENTS

### *Recently adopted accounting pronouncements*

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation – Stock Compensation (Topic 718). The objective of this Update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Specifically, an employee share-based payment award denominated in a currency of a market in which

a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance or service condition and therefore would not classify the award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this Update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. This standard is effective for the Company on September 1, 2011. The Company's adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

### *Accounting Standards Not Yet Effective*

In May 2011, the FASB issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820). This Update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and International Financial Reporting Standards (IFRS). The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and they explain how to measure fair value and they do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments in this Update apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income (Topic 220). The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this Update. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update 2011-12, Comprehensive Income (Topic 220). The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-5 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this update on the consolidated financial statements.

### **CRITICAL ACCOUNTING POLICIES**

We prepare our 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

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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.

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

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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 5 of our consolidated financial statements.

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 \$1,150,000.

### ***Contingencies***

As discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Note 7 "Contingencies" in Notes to Interim Consolidated Financial Statements, the Company is subject 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 quarter, the slightly rise in the value of the Canadian dollar relative to the US dollar compared to the three months ended November 30, 2010 didn't have a significant impact on the Company.

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

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act ), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures at November 30, 2011.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management 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 significant changes in our internal controls 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**

- a) On August 12, 2009 the Company received a statement of claim for wrongful dismissal. The claim is for approximately \$174,000 (\$180,000 CDN) plus an award of stock options and unspecified damages. The Company believes the claim is without merit. The matter was heard at trial during the quarter and management expects a decision shortly. Management believes it is unlikely that the outcome of this matter will have an adverse impact on its result of operations, cash flows and financial condition.
- b) On June 10, 2011, the Company commenced proceedings in the Federal Court of Australia against Shooting Star Picture Company Pty Ltd, Peter Skillman and D-Star Music Delivery Pty Ltd. (collectively the respondents ). The Company alleges various claims against the respondents including, amongst other things, breach of contract, misleading and deceptive conduct, breach of fiduciary duties, and breach of confidence. The company is presently seeking damages of at least AU\$1.5 to \$2.2 million.

The respondents have cross-claimed for approximately \$144,500 (AU\$145,000) plus a percentage of unspecified revenue the Company received from the Australian market during the year ended August 31, 2011. Management believes it is unlikely that the outcome of this matter will have an adverse impact on its result of operations, cash flows and financial condition of the Company.

- c) 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 plus interest. The claim asserts that the Company has repudiated a subscription agreement entered into in, or around, August 2000. Management

believes the claim is without merit and that it is unlikely 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.

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**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, 2011 filed with the SEC on November 29, 2011. 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 June 28, 2011, the board of directors authorized a new tranche to repurchase up to 2,500,000 shares of the Company's common stock at a maximum share purchase price of \$0.80 per share. The Company didn't repurchase any shares during the quarter ended November 30, 2011. Future 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 June 30<sup>th</sup>, 2012. 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.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

**(a) Reports on Form 8-K**

None.

**(b) Information required by Item 407(C)(3) of Regulation S-K**

No Disclosure Necessary.

**Item 6. EXHIBITS.**

Exhibit 31.1: Certification required by Rule 13a-14(a) or Rule 15d-14(a) Certification executed by Steven Vestergaard, Chief Executive Officer

Exhibit 31.2: Certification required by Rule 13a-14(a) or Rule 15d-14(a) Certification executed by Frederick Vandenberg, Chief Financial Officer

Exhibit 32.1 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

Exhibit 32.2 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





**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**DESTINY MEDIA TECHNOLOGIES INC.**

Dated: January 13, 2012

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

/s/Fred Vandenberg  
Frederick Vandenberg, Chief Financial Officer

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