

DESTINY MEDIA TECHNOLOGIES INC
Form 10-Q
July 15, 2015

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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **May 31, 2015**

☐ **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 **0-28259**

DESTINY MEDIA TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

84-1516745

(I.R.S. Employer Identification No.)

1110 - 885 West Georgia Street,
Vancouver, British Columbia, Canada

(Address of principal executive offices)

V6C 3E8

(Zip Code)

604-609-7736

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changes since last report)

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of

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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

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.

Large accelerated filer []

Accelerated filer

[]

Non-accelerated filer ☐ (Do not check if a smallerSmaller reporting company reporting company)

[X]

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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:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:

The number of shares outstanding of the registrant's common stock, par value \$0.001, as of July 14, 2015 was 52,993,874.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Condensed Consolidated Financial Statements

Destiny Media Technologies Inc.

(Unaudited)

Nine months ended May 31, 2015

(Expressed in United States dollars)

Destiny Media Technologies Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

Unaudited

As at

	May 31, 2015 \$	August 31, 2014 \$
ASSETS		
Current		
Cash and cash equivalents	419,391	990,007
Accounts receivable, net of allowance for doubtful accounts of \$8,029 [Aug 31, 2014 \$5,513]	514,842	544,609
Other receivables	10,246	78,040
Current portion of long term receivable [note 3]	101,954	115,464
Prepaid expenses	30,975	147,206
Deposits current portion	23,579	
Total current assets	1,100,987	1,875,326
Deposits long term portion	34,167	22,870
Long term receivable [note 3]	205,431	345,830
Property and equipment, net	421,829	315,180
Deferred tax assets long term portion	842,000	842,000
Total assets	2,604,414	3,401,206
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	178,368	172,617
Accrued liabilities	211,275	203,353
Deferred revenue	4,415	22,589
Deferred leasehold inducement	76,173	
Obligation under capital lease current portion [note 5]	5,444	
Total current liabilities	475,675	398,559
Obligation under capital lease long term portion [note 5]	13,751	
Total liabilities	489,426	398,559
Commitments and contingencies [notes 5 and 8]		
Stockholders equity		
Common stock, par value \$0.001 [note 4]		
Authorized: 100,000,000 shares Issued and outstanding: 52,993,874 shares [Aug 31, 2014 issued and outstanding 52,993,874 shares]	52,994	52,994
Additional paid-in capital	9,080,472	9,061,325
Accumulated deficit	(6,750,610)	(6,111,415)
Accumulated other comprehensive (loss)	(267,868)	(257)
Total stockholders equity	2,114,988	3,002,647
Total liabilities and stockholders equity	2,604,414	3,401,206

See accompanying notes

Destiny Media Technologies Inc.

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

(Expressed in United States dollars)

Unaudited

	Three Months Ended May 31, 2015 \$	Three Months Ended May 31, 2014 \$	Nine Months Ended May 31, 2015 \$	Nine Months Ended May 31, 2014 \$
Revenue [note 9]	803,409	942,472	2,501,672	2,675,695
Operating expenses				
General and administrative	267,967	271,855	808,547	1,041,520
Sales and marketing	360,925	330,830	1,114,431	1,057,221
Research and development	348,680	237,790	1,123,931	770,636
Amortization	53,595	39,655	128,378	104,063
	1,031,167	880,130	3,175,287	2,973,440
Income (loss) from operations	(227,758)	62,342	(673,615)	(297,745)
Other income				
Other Income	289		289	
Interest income	9,482	14,758	34,573	47,405
Interest and Other Expense	(442)		(442)	
Income (loss) before income taxes	(218,429)	77,100	(639,195)	(250,340)
Income tax recovery (expense) - deferred		3,000		
Net income (loss)	(218,429)	80,100	(639,195)	(250,340)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	(1,824)	75,804	(267,611)	(78,877)
Total comprehensive income (loss)	(220,253)	155,904	(906,806)	(329,217)
Net income (loss) per common share, basic and diluted	(0.00)	0.00	(0.01)	(0.00)
Weighted average common shares outstanding:				
Basic	52,993,874	52,412,480	52,993,874	52,272,673
Diluted	52,993,874	52,510,940	52,993,874	52,272,673

See accompanying notes

Destiny Media Technologies Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Expressed in United States dollars)

Unaudited

	Common stock		Additional		Accumulated	Total
	Shares	Amount	paid-in	Accumulated	other	stockholders
	#	\$	capital	Deficit	comprehensive	equity
			\$	\$	Income (loss)	\$
					\$	
Balance, August 31, 2013	51,981,964	51,982	8,929,384	(5,787,016)	88,657	3,283,007
Total comprehensive income (loss)				(324,399)	(88,914)	(413,313)
Common stock issued on private placement	128,701	129	111,841			111,970
Common stock issued on options exercised	883,209	883	100,367			101,250
Repurchase of options			(113,215)			(113,215)
Stock based compensation			32,948			32,948
Balance, August 31, 2014	52,993,874	52,994	9,061,325	(6,111,415)	(257)	3,002,647
Total comprehensive (loss)				(639,195)	(267,611)	(906,806)
Stock based compensation Note 4			19,147			19,147
Balance, May 31, 2015	52,993,874	52,994	9,080,472	(6,750,610)	(267,868)	2,114,988

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

Unaudited

	Nine months Ended May 31, 2015 \$	Nine months Ended May 31, 2014 \$
OPERATING ACTIVITIES		
Net income (loss)	(639,195)	(250,340)
Items not involving cash:		
Depreciation and amortization	128,378	104,063
Stock-based compensation	19,147	32,948
Deferred leasehold inducement	80,167	(2,834)
Deferred income taxes		
Unrealized foreign exchange	25,987	(35,626)
Changes in non-cash working capital:		
Accounts receivable	(40,972)	(78,988)
Other receivables	60,989	(51,887)
Prepaid expenses and deposits	71,807	6,560
Accounts payable	49,160	25,369
Accrued liabilities	35,330	(13,393)
Deferred revenue	(16,128)	(37,647)
Long term receivable	74,753	74,386
Net cash used in operating activities	(150,577)	(227,389)
INVESTING ACTIVITIES		
Purchase of property and equipment	(282,461)	(191,598)
Net cash used in investing activities	(282,461)	(191,598)
FINANCING ACTIVITIES		
Proceeds from options/warrants exercised		101,250
Repurchase of options		(113,215)
Net cash used in financing activities		(11,965)
Effect of foreign exchange rate changes on cash	(137,578)	(51,670)
Net decrease in cash during the period	(570,616)	(482,622)
Cash, beginning of the period	990,007	1,521,552
Cash, end of the period	419,391	1,038,930
Supplementary disclosure		
Interest paid	442	
Income taxes paid		
<i>See accompanying notes</i>		

Destiny Media Technologies Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

1. ORGANIZATION

Destiny Media Technologies Inc. (the Company) was incorporated in August 1998 under the laws of the State of Colorado and the corporate jurisdiction was changed to Nevada effective October 8, 2014. 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 OTCQX U.S. 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, 2015 are not necessarily indicative of the results that may be expected for the year ended August 31, 2015.

The balance sheet at August 31, 2014 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, 2014.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

3. LONG TERM RECEIVABLE

The Company agreed to settle litigation with an unrelated party. 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 and ending on February 28, 2018. The balance is due to be paid in equal monthly installments of \$14,050AUD until the end of the obligation. 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 of May 31, 2015, installments of \$619,850AUD (US \$589,351) including interest of \$197,345AUD (US \$188,079) has been received.

The following table summarizes the changes regarding the carrying value of the remaining receivable balance during the nine months period ended May 31, 2015 covering period of September 1, 2014 to May 31, 2015 and the three months period ended May 31, 2015 covering period of March 1, 2015 to May 31, 2015:

	Three Months Ended		Nine Months Ended	
	May 31	May 31	May 31	May 31
	2015	2014	2015	2014
	\$	\$	\$	\$
Beginning balance	338,707	492,977	461,294	540,538
Gross installments received	(32,772)	(38,888)	(103,930)	(116,031)
Interest included in above	8,384	12,817	28,681	40,172
Foreign exchange impact	(6,934)	19,942	(78,660)	22,169
Ending balance	307,385	486,848	307,385	486,848

The foreign exchange impact in above table is partially allocated into other comprehensive income (loss) and partially allocated into exchange gain (loss) on income statement.

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, 2015, no shares were issued.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

4. STOCKHOLDERS' EQUITY (continued)**[b] Stock option plans**

The Company has one existing stock option plan (the "Plan"), namely the 2006 Stock Option Plan, under which up to 5,100,000 shares of the common stock, has been reserved for issuance. A total of 33,181 common shares remain eligible for issuance under the plan. 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 Plan as of May 31, 2015, and changes during the period ended are presented below:

		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value \$
Options	Shares			
Outstanding at August 31, 2014	545,000	0.95	2.55	67,500
Issued				
Exercised				
Expired	225,000	0.50		
Outstanding at May 31, 2015	320,000	1.26	3.29	
Vested and exercisable at May 31, 2015	77,500	1.36	2.95	

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 respective reporting date.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

4. STOCKHOLDERS EQUITY (cont d.)

The following table summarizes information regarding the non-vested stock purchase options outstanding as of May 31, 2015:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested options at August 31, 2014	320,000	0.20
Granted		
Vested	77,500	0.20
Non-vested options at May 31, 2015	242,500	0.21

As of May 31, 2015, there was \$25,596 of total unrecognized compensation cost related to non-vested share-based compensation awards. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.09 years.

During the nine months ended May 31, 2015 and 2014, stock-based compensation expense has been reported in the consolidated statement of operations and comprehensive income as follows:

	Three Months Ended		Nine Months Ended	
	May 31 2015	May 31 2014	May 31 2015	May 31 2014
	\$	\$	\$	\$
Stock-based compensation:				
General and administrative	5,249	313	13,171	367,484
Sales and marketing	587		5,389	
Research and development			587	
Total stock-based compensation	5,836	313	19,147	367,484

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:

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

4. STOCKHOLDERS EQUITY (cont d.)

	Three Months Ended		Nine Months Ended	
	May 31	May 31	May 31	May 31
	2015	2014	2015	2014
Expected term of stock options (years)				0.00-0.25
Expected volatility				48%-150%
Risk-free interest rate				0.00%-0.14%
Dividend yield				

Expected volatilities are based on historical volatility of the Company's stock. The Company also uses historical data to estimate option exercise and employee termination within the valuation model.

The expected term of stock options represents the period of time that options vested 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 options vested.

[c] 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, 2015, the Company recognized compensation expense of \$81,949 (May 31, 2014 - \$103,071) in salaries and wages on the consolidated statement of operations and comprehensive income 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 \$0.3937 (May 31, 2014 - \$1.72). The shares are held in trust by the Company for a period of one year from the date of purchase.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

5. COMMITMENTS

In December 2014, the Company entered into a sublease agreement commencing May 1, 2015 and expiring June 29, 2017 for a new premise with free occupation from December 2014 to April 2015. In February 2015 the sublease agreement was amended to include one extra month free occupation for May 2015 with rent payment starting June 1, 2015. The Company has fiscal year payments committed as follows:

\$

2015	70,736
2016	282,944
2017	235,786

During the nine months ended May 31, 2015 the Company incurred rent expense of \$230,038 (May 31, 2014 - \$198,668) which has been allocated between general and administrative expenses, research and development and sales and marketing on the consolidated statement of operations and comprehensive income (loss). The rent expense during the nine months ended May 31, 2015 has included the allocation of rental payments for our new office into the period starting from the sublease commencement date on a straight-line basis up to May 31, 2015.

In February 2015, the Company entered into a capital lease. The Company is committed to make payments under its capital leases for the remaining terms of the leases as follows:

\$

2015	1,707
2016	6,829
2017	6,829
2018	6,488
Total lease payments	21,853
Less: Amounts representing interest	(2,658)
Balance of obligation	19,195
Less: Current portion	(5,444)
Long term portion	13,751

Destiny Media Technologies Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

6. RELATED PARTY TRANSACTIONS

The Company entered into a consulting agreement with a family member of a Director to provide project management service effective March 1, 2014. During the nine months ended May 31, 2015, the Company paid consulting fees of \$69,290 (May 31, 2014 - \$8,000) under this agreement. The family member's service was terminated at the end of May 2015.

7. INCOME TAX

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, 2014.

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 \$842,000.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

7. INCOME TAX (cont d.)

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 May 31, 2015, the tax years which remain subject to examination by major tax jurisdictions as of May 31, 2015. 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.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

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:

	Three Months Ended		Nine Months Ended	
	May 31	May 31	May 31	May 31
	2015	2014	2015	2014
	\$	\$	\$	\$
Play MPE®				
North America	319,130	351,347	967,447	953,642
Europe	398,490	517,353	1,295,423	1,522,074
Australasia	78,295	53,180	216,148	114,834
Total Play MPE®	795,915	921,880	2,479,018	2,590,550
Clipstream ® & Pirate Radio				
North America	7,494	20,592	22,654	85,145
Outside of North America				
Total Clipstream ® & Pirate Radio	7,494	20,592	22,654	85,145
Total revenue	803,409	942,472	2,501,672	2,675,695

Revenue in the above table is based on location of the customer. Some of these customers have distribution centers located around the globe and distribute around the world. During the nine months ended May 31, 2015, the Company generated 45% of total revenue from one customer [May 31, 2014 - one customer represented 49%].

It is in management's opinion that the Company is not exposed to significant credit risk.

As at May 31, 2015, one customer represented \$349,418 (68%) of the trade receivables balance [May 31, 2014 - one customer represented 60%].

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

Destiny Media Technologies Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

10. NEW ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

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 adoption of this standard did not have a material effect on the Company's consolidated financial statements.

Accounting Standards Not Yet Effective

In July 2013, the FASB issued Accounting Standards Update 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The current practice Topic 740, Income Taxes does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The objective of this Update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits. This accounting standard update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, early adoption is permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced revenue related disclosures. ASU 2014-09 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. The Company has not yet evaluated the impact of the adoption of this new standard.

Destiny Media Technologies Inc.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2015 and 2014

11. SUBSEQUENT EVENTS

Subsequent to the quarter ended May 31, 2015, 1,170,000 stock options under its approved 2015 Stock Option Plan were granted to officers, directors, employees and consultants of the Company. The options were granted for a period of two years, expiring two years from their vesting dates, and each stock option will allow the holder to purchase a common share of Destiny at an exercise price of USD\$0.40 per share.

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 (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). 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 under Item 1A. Risk Factors, of part II, 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. Such 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 and the corporate jurisdiction was changed to Nevada effective October 8, 2014. We carry out our business operations through our wholly owned subsidiary, 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 in 2012. The Company, Destiny Media, Destiny or we refers to consolidated activities of all four companies.

Our principal executive office is located at 1110 - 885 West Georgia, Vancouver, British Columbia V6C 3E8. 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 OTCQX U.S. (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®.

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.

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. The financial model is transaction based, where the price per delivery varies with the number of songs and videos in the package.

More than 1,000 record labels, including all three major labels (Universal Music Group ("UMG"), Warner Music Group, and Sony), are regularly using Play MPE® to deliver their content to radio. Play MPE® accounts for virtually all of the Company's revenue.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED MAY 31, 2015 AND 2014

Revenue

Led by a decline in the value of the Euro relative to the United States Dollar, total revenue for the nine months ended May 31, 2015 declined by 7% over the nine months ended May 31, 2014 to \$2,501,672 (May 31, 2014 \$2,675,695). Eliminating the negative impact of foreign exchange rates, total revenue for the nine months ended May 31, 2015 increased by 2%. This increase is the result of increased sales for Play MPE® services (eliminating negative foreign exchange rate impacts) where Play MPE® saw increased demand in the independent record label segment in the United States and growth in Australian distributions.

The decline in the value of the Euro seen in the third quarter was the largest factor resulting in a decline in total revenue for the three months ended May 31, 2015 which saw a 15% decline over the three months ended May 31, 2014 to \$803,409 (May 31, 2014 \$942,472).

Approximately 52% of our Play MPE® revenue is denominated in Euros for the nine months ended May 31, 2015. European revenue is currently concentrated in the United Kingdom and the Scandinavian countries. Approximately 39% of Play MPE® revenue is denominated in US Dollars and 8% of Play MPE® revenue is denominated in Australian Dollars for the nine months ended May 31, 2015.

Operating Expenses

Overview

The majority of our expenditures are on salaries and wages and associated expenses; office space, supplies and benefits and our operations are primarily conducted in Canada. The majority of our costs are incurred in Canadian dollars while the majority of our revenue is in Euros and US 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.

During the nine-month period ending May 31, 2015, while exchange rates resulted in adverse impacts to overall revenue, the strengthening of the US dollar relative to the Canadian dollar resulted in a favorable impact on costs. The Company maintains most of its financial reserves in Canadian dollars to mitigate downside risk of adverse exchange rates.

Total operating expenditures for the nine months ended May 31, 2015 has increased by 6.8% over the same period in the prior year to \$3,175,287 (May 31, 2014 \$2,973,440) as a result of increased staffing and increased rent in the form of a non-cash expenditure over a period in which the Company maintained two offices while preparing for a

larger space.

Total operating expenditures for the three months ended May 31, 2015 has increased by 17.2% over the same period in the prior year to \$1,031,167 (May 31, 2014 \$880,130) mainly as a result of the increased staffing.

General and administrative	31-May 2015	31-May 2014	\$ Change	% Change
	(9 months)	(9 months)		
	\$	\$		
Wages and benefits	362,793	595,046	(232,253)	(39.0%)
Rent	38,151	31,139	7,012	22.5%
Telecommunications	17,539	12,325	5,214	42.3%
Bad debt	3,380	(3,335)	6,715	(201.3%)
Office and miscellaneous	282,340	232,185	50,155	21.6%
Professional fees	104,344	174,160	(69,816)	(40.1%)
	808,547	1,041,520	(232,973)	(22.4%)

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 office and miscellaneous is primarily due to foreign exchange gains of approximately \$81,000 in the comparative period with no similar gains in the current period. The gains were as a result of fluctuations in the value of the Euro and Australia dollar impacting cash and accounts receivable balances denominated in those currencies. The decrease in wages and benefits is mainly due to the additional expense related to repurchase options in comparative period. The decrease in professional fees is mainly due to non-recurring legal advice surrounding a NASDAQ listing application and addressing various associated United States securities issues for an amount of approximately \$34,000 in the comparative period.

Sales and marketing	31-May 2015	31-May 2014	\$ Change	% Change
	(9 months)	(9 months)		
	\$	\$		
Wages and benefits	892,522	750,323	142,199	19.0%
Rent	86,666	88,622	(1,956)	(2.2%)
Telecommunications	39,842	35,077	4,765	13.6%
Meals and entertainment	-	11,642	(11,642)	(100.0%)
Travel	38,377	58,012	(19,635)	(33.8%)
Advertising and marketing	57,024	113,545	(56,521)	(49.8%)
	1,114,431	1,057,221	57,210	5.4%

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 increased staffing on marketing activities. The decrease in Advertising and Marketing is mainly due to reduced cost on advertisements related to Clipstream® in the comparative period.

Research and development	31-May 2015	31-May 2014	\$ Change	% Change
	(9 months)	(9 months)		
	\$	\$		
Wages and benefits	965,431	660,136	305,295	46.2%
Rent	105,221	78,907	26,314	33.3%
Telecommunications	48,372	31,232	17,140	54.9%
Research and development	4,907	361	4,546	1259.3%
	1,123,931	770,636	353,295	45.8%

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 in wages and benefits is primarily due to increased staffing on engineering related to the Clipstream® business.

Amortization

Amortization expense arises from property and equipment, from computer hardware and software, and from patents and trademarks. Amortization increased to \$128,378 for the nine months ended May 31, 2015 from \$104,063 for the nine months ended May 31, 2014, an increase of \$24,315 or 23% as a result of capitalized leasehold improvements for our new office and software testing service purchased to improve product quality.

Other earnings and expenses

Interest income decreased to \$34,573 for the nine months ended May 31, 2015 from \$47,405 for the nine months ended May 31, 2014, a decrease of \$12,832. The interest income is derived from the amount receivable pursuant to our previous litigation settlement. The decrease in interest income is the result of a lower settlement receivable balance from the settlement receivable being paid down during the year.

Net income

During the nine months ended May 31, 2015 we have net loss of \$639,195 (May 31, 2014 net loss of \$250,340). The net loss during the current period is due to increased staffing and expenditures associated with market research for the Clipstream® products.

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, amortization, the effect of deferred leasehold inducement, 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:

	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3
	\$	\$	\$	\$	\$	\$	\$	\$
Net Income	26,171	44,393	(374,833)	80,100	(74,059)	(56,309)	(364,457)	(218,429)
Amortization, stock based compensation and deferred leasehold inducement	57,217	54,166	42,877	39,968	44,102	42,982	60,799	123,911
Interest income	(18,494)	(16,823)	(15,824)	(14,758)	(13,961)	(13,046)	(12,045)	(9,482)
Income tax	15,000	24,000	(21,000)	(3,000)				