

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

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**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

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 | <input type="checkbox"/> | Accelerated filer                             | <input type="checkbox"/>            |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company                     | <input checked="" type="checkbox"/> |
|                         |                          | (Do not check if a smaller reporting company) |                                     |

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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.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Condensed Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Nine months ended May 31, 2015

(Expressed in United States dollars)

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## Destiny Media Technologies Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

Unaudited

As at

|  | May 31,<br>2015<br>\$ | August 31,<br>2014<br>\$ |
|--|-----------------------|--------------------------|
| <b>ASSETS</b>  |                       |                          |
| <b>Current</b>   |                       |                          |
| Cash and cash equivalents  | 419,391               | 990,007                  |
| Accounts receivable, net of allowance for<br>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                |                          |
| <b>Total current assets</b>  | <b>1,100,987</b>      | <b>1,875,326</b>         |
| 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                  |
| <b>Total assets</b>  | <b>2,604,414</b>      | <b>3,401,206</b>         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                          |
| <b>Current</b>   |                       |                          |
| 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                 |                          |
| <b>Total current liabilities</b>   | <b>475,675</b>        | <b>398,559</b>           |
| Obligation under capital lease - long term portion [note 5]  | 13,751                |                          |
| <b>Total liabilities</b>   | <b>489,426</b>        | <b>398,559</b>           |
| Commitments and contingencies [notes 5 and 8]  |                       |                          |
| <b>Stockholders' equity</b>  |                       |                          |
| Common stock, par value \$0.001 [note 4]<br>Authorized: 100,000,000 shares Issued<br>and outstanding: 52,993,874 shares<br>[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)                    |
| <b>Total stockholders' equity</b>  | <b>2,114,988</b>      | <b>3,002,647</b>         |
| <b>Total liabilities and stockholders' equity</b>  | <b>2,604,414</b>      | <b>3,401,206</b>         |

See accompanying notes

## Destiny Media Technologies Inc.

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

(Expressed in United States dollars)

Unaudited

|  | <b>Three Months<br/>Ended<br/>May 31,<br/>2015<br/>\$</b> | Three Months<br>Ended<br>May 31,<br>2014<br>\$ | <b>Nine Months<br/>Ended<br/>May 31,<br/>2015<br/>\$</b> | Nine Months<br>Ended<br>May 31,<br>2014<br>\$ |
|--|---|--|--|---|
| <b>Revenue</b> [note 9]                                      | <b>803,409</b>  | 942,472  | <b>2,501,672</b>   | 2,675,695                                     |
| <b>Operating expenses</b>                                    |   |  |  |   |
| General and administrative                                   | <b>267,967</b>  | 271,855  | <b>808,547</b>   | 1,041,520                                     |
| Sales and marketing  | <b>360,925</b>  | 330,830  | <b>1,114,431</b>   | 1,057,221                                     |
| Research and development                                     | <b>348,680</b>  | 237,790  | <b>1,123,931</b>   | 770,636                                       |
| Amortization   | <b>53,595</b>   | 39,655   | <b>128,378</b>   | 104,063                                       |
|  | <b>1,031,167</b>  | 880,130  | <b>3,175,287</b>   | 2,973,440                                     |
| <b>Income (loss) from operations</b>                         | <b>(227,758)</b>  | 62,342   | <b>(673,615)</b>   | (297,745)                                     |
| <b>Other income</b>  |   |  |  |   |
| Other Income   | <b>289</b>  |  | <b>289</b>   |   |
| Interest income  | <b>9,482</b>  | 14,758   | <b>34,573</b>  | 47,405  |
| Interest and Other Expense                                   | <b>(442)</b>  |  | <b>(442)</b>   |   |
| <b>Income (loss) before income taxes</b>                     | <b>(218,429)</b>  | 77,100   | <b>(639,195)</b>   | (250,340)                                     |
| Income tax recovery (expense) - deferred                     |   | 3,000  |  |   |
| <b>Net income (loss)</b>                                     | <b>(218,429)</b>  | 80,100   | <b>(639,195)</b>   | (250,340)                                     |
| <b>Other comprehensive income (loss), net of tax</b>         |   |  |  |   |
| Foreign currency translation adjustments                     | <b>(1,824)</b>  | 75,804   | <b>(267,611)</b>   | (78,877)                                      |
| <b>Total comprehensive income (loss)</b>                     | <b>(220,253)</b>  | 155,904  | <b>(906,806)</b>   | (329,217)                                     |
| <b>Net income (loss) per common share, basic and diluted</b> |   |  |  |   |
|  | <b>(0.00)</b>   | 0.00   | <b>(0.01)</b>  | (0.00)  |
| <b>Weighted average common shares outstanding:</b>           |   |  |  |   |
| <b>Basic</b>   | <b>52,993,874</b>   | 52,412,480                                     | <b>52,993,874</b>  | 52,272,673                                    |
| <b>Diluted</b>   | <b>52,993,874</b>   | 52,510,940                                     | <b>52,993,874</b>  | 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        | Accumulated      | Total            |
|--|-------------------|---------------|------------------|--------------------|------------------|------------------|
|  | Shares            | Amount        | paid-in          | Deficit            | other            | stockholders     |
|  | #                 | \$            | capital          | \$                 | comprehensive    | equity           |
|  |                   |               | \$               |                    | Income (loss)    | \$               |
| <b>Balance, August 31, 2013</b>          | <b>51,981,964</b> | <b>51,982</b> | <b>8,929,384</b> | <b>(5,787,016)</b> | <b>88,657</b>    | <b>3,283,007</b> |
| 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           |
| <b>Balance, August 31, 2014</b>          | <b>52,993,874</b> | <b>52,994</b> | <b>9,061,325</b> | <b>(6,111,415)</b> | <b>(257)</b>     | <b>3,002,647</b> |
| Total comprehensive (loss)               |                   |               |                  | (639,195)          | (267,611)        | (906,806)        |
| Stock based compensation Note 4          |                   |               | 19,147           |                    |                  | 19,147           |
| <b>Balance, May 31, 2015</b>             | <b>52,993,874</b> | <b>52,994</b> | <b>9,080,472</b> | <b>(6,750,610)</b> | <b>(267,868)</b> | <b>2,114,988</b> |

*See accompanying notes*

## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

|  | <b>Nine months<br/>Ended<br/>May 31,<br/>2015</b> | Nine months<br>Ended<br>May 31,<br>2014 |
|--|---|---|
|  | \$  | \$                                      |
| <b>OPERATING ACTIVITIES</b>                            |   |   |
| 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                                  |
| <b>Net cash used in operating activities</b>           | <b>(150,577)</b>                                  | <b>(227,389)</b>                        |
| <b>INVESTING ACTIVITIES</b>                            |   |   |
| Purchase of property and equipment                     | (282,461)   | (191,598)                               |
| <b>Net cash used in investing activities</b>           | <b>(282,461)</b>                                  | <b>(191,598)</b>                        |
| <b>FINANCING ACTIVITIES</b>                            |   |   |
| Proceeds from options/warrants exercised               |   | 101,250                                 |
| Repurchase of options                                  |   | (113,215)                               |
| <b>Net cash used in financing activities</b>           |   | <b>(11,965)</b>                         |
| <b>Effect of foreign exchange rate changes on cash</b> | <b>(137,578)</b>                                  | <b>(51,670)</b>                         |
| <b>Net decrease in cash during the period</b>          | <b>(570,616)</b>                                  | <b>(482,622)</b>                        |
| Cash, beginning of the period                          | 990,007   | 1,521,552                               |
| <b>Cash, end of the period</b>                         | <b>419,391</b>                                    | <b>1,038,930</b>                        |
| <b>Supplementary disclosure</b>                        |   |   |
| 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:

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

|   | Options | Shares         | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>\$ |
|---|---------|----------------|---------------------------------------|---|---------------------------------------|
| <b>Outstanding at August 31, 2014</b>         |         | <b>545,000</b> | <b>0.95</b>                           | <b>2.55</b>   | <b>67,500</b>                         |
| Issued  |         |                |                                       |   |                                       |
| Exercised                                     |         |                |                                       |   |                                       |
| Expired                                       |         | 225,000        | 0.50                                  |   |                                       |
| <b>Outstanding at May 31, 2015</b>            |         | <b>320,000</b> | <b>1.26</b>                           | <b>3.29</b>   |                                       |
| <b>Vested and exercisable at May 31, 2015</b> |         | <b>77,500</b>  | <b>1.36</b>                           | <b>2.95</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 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<br>Average<br>Grant Date<br>Fair Value |
|--|-------------------|---|
| <b>Non-vested options at August 31, 2014</b> | <b>320,000</b>    | <b>0.20</b>                                     |
| Granted                                      |                   |   |
| Vested                                       | 77,500            | 0.20  |
| <b>Non-vested options at May 31, 2015</b>    | <b>242,500</b>    | <b>0.21</b>                                     |

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<br>2015<br>\$ | May 31<br>2014<br>\$ | May 31<br>2015<br>\$ | May 31<br>2014<br>\$ |
| <b>Stock-based compensation:</b>      |                      |                      |                      |                      |
| General and administrative            | 5,249                | 313                  | 13,171               | 367,484              |
| Sales and marketing                   | 587                  |                      | 5,389                |                      |
| Research and development              |                      |                      | 587                  |                      |
| <b>Total stock-based compensation</b> | <b>5,836</b>         | 313                  | <b>19,147</b>        | 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.)**

|  | <b>Three Months Ended</b> |               | <b>Nine Months Ended</b> |               |
|--|---------------------------|---------------|--------------------------|---------------|
|  | <b>May 31</b>             | <b>May 31</b> | <b>May 31</b>            | <b>May 31</b> |
|  | <b>2015</b>               | <b>2014</b>   | <b>2015</b>              | <b>2014</b>   |
| 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:

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

| <b>General and administrative</b> | <b>31-May<br/>2015</b> | <b>31-May<br/>2014</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|-----------------------------------|------------------------|------------------------|----------------------|---------------------|
|                                   | (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.

| <b>Sales and marketing</b> | <b>31-May<br/>2015</b> | <b>31-May<br/>2014</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|----------------------------|------------------------|------------------------|----------------------|---------------------|
|                            | (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.

| <b>Research and development</b> | <b>31-May<br/>2015</b> | <b>31-May<br/>2014</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|---------------------------------|------------------------|------------------------|----------------------|---------------------|
|                                 | (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   |
|---|----------|----------|-----------|----------|----------|----------|-----------|-----------|
|   | \$       | \$       | \$        | \$       | \$       | \$       | \$        | \$        |
| <b>Net Income</b>   | 26,171   | 44,393   | (374,833) | 80,100   | (74,059) | (56,309) | (364,457) | (218,429) |
| Amortization,<br>stock based<br>compensation<br>and deferred<br>leasehold<br>inducement | 57,217   | 54,166   | 42,877    | 39,968   | 44,102   | 42,982   | 60,799    | 123,911   |
| Interest<br>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)  | 17,000   |          |           |           |
| <b>Adjusted<br/>EBITDA</b>  | 79,894   | 105,736  | (368,780) | 102,310  | (26,918) | (26,373) | (315,703) | (104,000) |

**LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$419,391 as at May 31, 2015 (August 31, 2014 \$990,007). We had working capital of \$625,312 as at May 31, 2015 compared to working capital of \$1,476,767 as at August 31, 2014. The decrease in our working capital was mainly due to a decrease in our cash balance, which was caused by the operating loss and unfavorable exchange rates fluctuation, and as a result of non cash rent expense and previously funded compensation expenses.

## **CASHFLOWS**

Net cash used by operating activities was \$150,577 for the nine months ended May 31, 2015, compared to net cash used of \$227,389 for the nine months ended May 31, 2014. The main reason for the decrease in net cash flows used in the operating activities was primarily due to the cash payout related to repurchase options in comparative period.

Net cash used in investing activities was \$282,461 for the nine months ended May 31, 2015, compared to net cash used of \$191,598 for the nine months ended May 31, 2014. The increase in net cash used in investing activities is largely attributable to the leasehold improvements for our new office in current period.

There were no cash used or provided in financing activities for the nine months ended May 31, 2015 compare to net cash used in financing activities was \$11,965 for the nine months ended May 31, 2014.

## **RECENT 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.

## **CRITICAL ACCOUNTING POLICIES**

We prepare our interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, and the related disclosures of contingent liabilities. We base our estimates on historical experience and other assumptions that we believe are reasonable in the circumstances. Actual results may differ from these estimates.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements.



### ***Revenue Recognition***

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

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

At present, the Company does not 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 the determination of any amounts identified for capitalization as software development costs in any accounting period. If we made different judgments or utilized different estimates for any period material differences in the amount and timing of capitalized development costs could occur.

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

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

### ***Income Taxes***

Deferred income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates by tax jurisdiction at each balance sheet date. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We evaluate all available evidence, such as recent and expected future operating results by tax jurisdiction, and current and enacted tax legislation and other temporary differences between book and tax accounting to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. There is a risk that management estimates for operating results could vary significantly from actual results, which could materially affect the valuation of the future income tax asset. Although the Company has tax loss carry-forwards and other deferred income tax assets, management has determined certain of these deferred tax assets do not meet the more likely than not criteria, and accordingly, these deferred income tax asset amounts have been partially offset by a valuation allowance as disclosed in Note 6 of our annual consolidated financial statements for the year ended August 31, 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.

### ***Contingencies***

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

### ***Impairment of Long-Lived Assets***

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



**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

**Foreign Exchange Risk**

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted to the extent they are not hedged by the rise and fall of the relative values of Canadian dollar to these currencies. During the nine months ended May 31, 2015, as a result of foreign exchange fluctuation, the Company recognized negative impacts on net income.

#### **Item 4. Controls and Procedures.**

##### **Disclosure Controls and Procedures**

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer and Chief Financial Officer concluded that as of May 31, 2015, our disclosure controls and procedures are effective as at the end of the period covered by this report.

##### **Changes in Internal Control over Financial Reporting**

There are no changes in internal control over financial reporting during the nine months ended May 31, 2015.

## **PART II OTHER INFORMATION**

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

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

#### **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, 2014 filed with the SEC on November 24, 2014. 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.**

None.

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

None.



**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

31.1\* Section 302 Certification of Chief Executive Officer

31.2\* Section 302 Certification of Chief Financial Officer

32.1\* Section 906 Certification of Chief Executive Officer

32.2\* Section 906 Certification of Chief Financial Officer

101\* Interactive Data File

\* Filed herewith

**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.**

By: /s/Steven Vestergaard

Steven Vestergaard, President

Chief Executive Officer and Director

Date: July 15, 2015

/s/Frederick Vandenberg

Frederick Vandenberg, Chief Financial Officer

Date: July 15, 2015