

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-Q  
July 14, 2014

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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 nine months period ended May 31, 2014

**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)

**COLORADO**

(State or other jurisdiction of incorporation or  
organization)

**84-1516745**

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

**Suite 750, PO Box 11527, 650 West Georgia Street,**

**Vancouver, British Columbia, Canada**

(Address of principal executive offices)

**V6B 4N7**

(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,

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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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)  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, 2014 was 52,993,874.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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Condensed Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

Nine months ended May 31, 2014

(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>2014  | August 31,<br>2013 |
|---|------------------|--------------------|
|   | \$               | \$                 |
| <b>ASSETS</b>   |                  |                    |
| <b>Current</b>  |                  |                    |
| Cash and cash equivalents   | 1,038,930        | 1,521,552          |
| Accounts receivable, net of allowance for doubtful accounts of \$5,535 [August 31, 2013 \$11,392] | 486,165          | 419,697            |
| Other receivables   | 67,613           | 16,636             |
| Current portion of long term receivable [note 3]  | 112,205          | 99,649             |
| Prepaid expenses  | 33,962           | 29,653             |
| Deposits  | 22,962           | 35,611             |
| Deferred tax assets - current portion   | 130,000          | 130,000            |
| <b>Total current assets</b>   | <b>1,891,837</b> | <b>2,252,798</b>   |
| Long term receivable [note 3]   | 374,643          | 440,889            |
| Property and equipment, net   | 315,126          | 234,969            |
| Deferred tax assets - long term portion   | 729,000          | 729,000            |
| <b>Total assets</b>   | <b>3,310,606</b> | <b>3,657,656</b>   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                  |                    |
| <b>Current</b>  |                  |                    |
| Accounts payable  | 102,526          | 79,622             |
| Accrued liabilities   | 202,207          | 221,720            |
| Deferred leasehold inducement   |                  | 2,892              |
| Deferred revenue  | 31,100           | 70,415             |
| <b>Total liabilities</b>  | <b>335,833</b>   | <b>374,649</b>     |
| Commitments and contingencies [notes 5 and 8]   |                  |                    |
| <b>Stockholders equity</b>  |                  |                    |
| Common stock, par value \$0.001 [note 4]  |                  |                    |
| Authorized: 100,000,000 shares  |                  |                    |
| Issued and outstanding: 52,865,173 shares   |                  |                    |
| [August 31, 2013 - issued outstanding 51,981,964 shares]  | 52,865           | 51,982             |
| Additional paid-in capital  | 8,949,484        | 8,929,384          |
| Accumulated deficit   | (6,037,356)      | (5,787,016)        |
| Accumulated other comprehensive income (loss)   | 9,780            | 88,657             |
| <b>Total stockholders equity</b>  | <b>2,974,773</b> | <b>3,283,007</b>   |
| <b>Total liabilities and stockholders equity</b>  | <b>3,310,606</b> | <b>3,657,656</b>   |
| <i>See accompanying notes</i>   |                  |                    |

## Destiny Media Technologies Inc.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)**

(Expressed in United States dollars)

Unaudited

|  | <b>Three Months<br/>Ended<br/>May 31,<br/>2014<br/>\$</b> | Three Months<br>Ended<br>May 31,<br>2013<br>\$ | <b>Nine Months<br/>Ended<br/>May 31,<br/>2014<br/>\$</b> | Nine Months<br>Ended<br>May 31,<br>2013<br>\$ |
|--|---|--|--|---|
| <b>Revenue</b> <i>[note 10]</i>                              | <b>942,472</b>  | 873,866  | <b>2,675,695</b>   | 2,818,055                                     |
| <b>Operating expenses</b>                                    |   |  |  |   |
| General and administrative                                   | <b>271,855</b>  | 285,857  | <b>1,041,520</b>   | 675,454                                       |
| Sales and marketing  | <b>330,830</b>  | 207,492  | <b>1,057,221</b>   | 651,092                                       |
| Research and development                                     | <b>237,790</b>  | 336,083  | <b>770,636</b>   | 1,193,515                                     |
| Amortization   | <b>39,655</b>   | 28,746   | <b>104,063</b>   | 84,792  |
|  | <b>880,130</b>  | 858,178  | <b>2,973,440</b>   | 2,604,853                                     |
| <b>Income (loss) from operations</b>                         | <b>62,342</b>   | 15,688   | <b>(297,745)</b>   | 213,202                                       |
| <b>Other income</b>  |   |  |  |   |
| Interest income  | <b>14,758</b>   | 18,907   | <b>47,405</b>  | 59,641  |
| <b>Income (loss) before income taxes</b>                     | <b>77,100</b>   | 34,595   | <b>(250,340)</b>   | 272,843                                       |
| Income tax recovery (expense) - deferred                     | <b>3,000</b>  | (8,000)  | <b>(73,000)</b>  | (73,000)                                      |
| <b>Net Income (loss)</b>                                     | <b>80,100</b>   | 26,595   | <b>(250,340)</b>   | 199,843                                       |
| <b>Other comprehensive income (loss), net of tax</b>         |   |  |  |   |
| Foreign currency translation adjustments                     | <b>75,804</b>   | (13,465)                                       | <b>(78,877)</b>  | (96,429)                                      |
| <b>Total comprehensive income (loss)</b>                     | <b>155,904</b>  | 13,130   | <b>(329,217)</b>   | 103,414                                       |
| <b>Net income (loss) per common share, basic and diluted</b> | <b>0.00</b>   | 0.00   | <b>(0.00)</b>  | 0.00  |
| <b>Weighted average common shares outstanding:</b>           |   |  |  |   |
| <b>Basic</b>   | <b>52,412,480</b>   | 51,961,922                                     | <b>52,272,673</b>  | 52,021,101                                    |
| <b>Diluted</b>   | <b>52,510,940</b>   | 52,651,928                                     | <b>52,272,673</b>  | 52,703,717                                    |

*See accompanying notes*

## Destiny Media Technologies Inc.

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

(Expressed in United States dollars)

Unaudited

|   | Common stock<br>Shares<br># | Common stock<br>Amount<br>\$ | Additional<br>paid-in<br>capital<br>\$ | Accumulated<br>Deficit<br>\$ | Accumulated<br>other<br>comprehensive<br>Income (loss)<br>\$ | Total<br>stockholders<br>equity<br>\$ |
|---|-----------------------------|------------------------------|--|------------------------------|--|---------------------------------------|
| <b>Balance,<br/>August 31,<br/>2012</b>                     | <b>52,091,004</b>           | <b>52,091</b>                | <b>9,008,957</b>                       | <b>(6,013,030)</b>           | <b>232,917</b>   | <b>3,280,935</b>                      |
| Total<br>comprehensive<br>income /(loss)                    |                             |                              |  | 226,014                      | (144,260)  | 81,754                                |
| Common stock<br>issued on<br>options<br>exercised           | 47,610                      | 48                           | (48)                                   |                              |  |                                       |
| Common stock<br>cancelled                                   | (156,650)                   | (157)                        | (99,605)                               |                              |  | (99,762)                              |
| Stock<br>compensation                                       |                             |                              | 20,080                                 |                              |  | 20,080                                |
| <b>Balance,<br/>August 31,<br/>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<br>comprehensive<br>(loss)                            |                             |                              |  | (250,340)                    | (78,877)   | (329,217)                             |
| Stock options<br>repurchased<br>and cancelled               |                             |                              | (113,215)                              |                              |  | (113,215)                             |
| Common stock<br>issued on<br>options<br>exercised Note<br>4 | 883,209                     | 883                          | 100,367                                |                              |  | 101,250                               |
| Stock<br>compensation<br>Note 4                             |                             |                              | 32,948                                 |                              |  | 32,948                                |
| <b>Balance, May<br/>31, 2014</b>                            | <b>52,865,173</b>           | <b>52,865</b>                | <b>8,949,484</b>                       | <b>(6,037,356)</b>           | <b>9,780</b>   | <b>2,974,773</b>                      |

*See accompanying notes*



**Destiny Media Technologies Inc.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

Unaudited

| Nine months ended,   | May 31,<br>2014  | May 31,<br>2013  |
|--|------------------|------------------|
|  | \$               | \$               |
| <b>OPERATING ACTIVITIES</b>                                |                  |                  |
| Net income (loss)  | (250,340)        | 199,843          |
| Items not involving cash:                                  |                  |                  |
| Depreciation and amortization                              | 104,063          | 84,792           |
| Stock-based compensation                                   | 32,948           | 1,945            |
| Deferred leasehold inducement                              | (2,834)          | 1,820            |
| Deferred income taxes                                      |                  | 73,000           |
| Unrealized foreign exchange                                | (35,626)         | 17,396           |
| Changes in non-cash working capital:                       |                  |                  |
| Accounts receivable  | (78,988)         | (187,588)        |
| Other receivables  | (51,887)         | 33,878           |
| Prepaid expenses and deposits                              | 6,560            | (7,281)          |
| Accounts payable   | 25,369           | (136,288)        |
| Accrued liabilities  | (13,393)         | (15,528)         |
| Deferred revenue   | (37,647)         | 6,618            |
| Long term receivable                                       | 74,386           | 74,539           |
| <b>Net cash provided by (used in) operating activities</b> | <b>(227,389)</b> | <b>147,146</b>   |
| <b>INVESTING ACTIVITIES</b>                                |                  |                  |
| Purchase of property and equipment                         | (191,598)        | (50,403)         |
| <b>Net cash used in investing activities</b>               | <b>(191,598)</b> | <b>(50,403)</b>  |
| <b>FINANCING ACTIVITIES</b>                                |                  |                  |
| Proceeds from options/warrants exercised                   | 101,250          |                  |
| Repurchase of stock options                                | (113,215)        |                  |
| Repurchase of common shares                                |                  | (99,762)         |
| <b>Net cash provided by (used in) financing activities</b> | <b>(11,965)</b>  | <b>(99,762)</b>  |
| <b>Effect of foreign exchange rate changes on cash</b>     | <b>(51,670)</b>  | <b>(46,650)</b>  |
| <b>Net decrease in cash during the period</b>              | <b>(482,622)</b> | <b>(49,669)</b>  |
| Cash, beginning of the period                              | 1,521,552        | 1,275,423        |
| <b>Cash, end of the period</b>                             | <b>1,038,930</b> | <b>1,225,754</b> |
| <b>Supplementary disclosure</b>                            |                  |                  |
| Interest paid  |                  |                  |
| 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, 2014

**1. ORGANIZATION**

Destiny Media Technologies Inc. (the Company) was incorporated in August 1998 under the laws of the State of Colorado. The Company develops technologies that allow for the distribution over the Internet of digital media files in either a streaming or digital download format. The technologies are proprietary. The Company operates out of Vancouver, BC, Canada and serves customers predominantly located in the United States, Europe and Australia.

The Company's stock is listed for trading under the symbol DSNY on the OTCQX 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, 2014 are not necessarily indicative of the results that may be expected for the year ended August 31, 2014.

The balance sheet at August 31, 2013 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, 2013.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

**3. LONG TERM RECEIVABLE**

Pursuant to a Settlement Deed dated March 5, 2012, the Company became entitled to a settlement sum of \$825,000 Australian dollars ( AUD ) (US \$858,194), receivable in monthly installments over the course of 72 months, beginning on March 31, 2012. The unpaid balance accrues interest of 10.25% per annum compounded monthly. The receivable is secured by a registered charge against real estate located in Australia. As at May 31, 2014, installments of \$451,250 AUD and interest of \$149,292 AUD had been received.

**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, 2014, 733,209 shares were issued pursuant to the cashless exercise of 875,000 share purchase options exercisable at \$0.50 and 150,000 share purchase options exercisable at \$0.25 . 150,000 shares were issued pursuant to the cash exercise of 75,000 share purchase options exercisable at \$0.50 and 75,000 share purchase options exercisable at \$0.85.

**[b] Stock option plan**

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 208,181 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, 2014, and changes during the period ended are presented below:

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

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

|   |                | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>\$ |
|---|----------------|--|---|---------------------------------------|
| <b>Outstanding at August 31, 2013</b>         | <b>Options</b> | <b>Shares</b>                            |   |                                       |
|   |                | <b>1,850,000</b>                         | <b>0.49</b>   | <b>3,119,250</b>                      |
| Granted                                       |                | 120,000                                  | 1.70  |                                       |
| Exercised                                     |                | (1,175,000)                              | 0.49  | 1,110,500                             |
| Repurchased and cancelled                     |                | (450,000)                                | 0.50  | 447,750                               |
| <b>Outstanding at May 31, 2014</b>            |                | <b>345,000</b>                           | <b>0.92</b>   | <b>110,250</b>                        |
| <b>Vested and exercisable at May 31, 2014</b> |                | <b>225,000</b>                           | <b>0.50</b>   | <b>110,250</b>                        |

During the nine months ended May 31, 2014, 450,000 options at an exercise price of \$0.50 were repurchased by the Company for consideration of \$447,750 based on the open market price on the date of repurchase. The difference between the fair value of options at the repurchase date and the fair market value at grant date was charged to expense resulting in additional compensation of \$334,536 recorded in general and administrative expenses.

The following table summarizes information regarding the non-vested stock purchase options outstanding as of May 31, 2014:

|  | Number of Options |
|--|-------------------|
| <b>Non-vested options at August 31, 2013</b> | <b>40,625</b>     |
| Granted and non-vested                       | 120,000           |
| Vested                                       | (40,625)          |
| <b>Non-vested options at May 31, 2014</b>    | <b>120,000</b>    |

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at May 31, 2014.

During the three and nine months ended May 31, 2014 and May 31, 2013, stock-based compensation expense has been reported in the statement of operations as follows:

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

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

|                                       | <b>Three Months Ended</b> |                        | <b>Nine Months Ended</b> |                        |
|---------------------------------------|---------------------------|------------------------|--------------------------|------------------------|
|                                       | <b>May 31<br/>2014</b>    | <b>May 31<br/>2013</b> | <b>May 31<br/>2014</b>   | <b>May 31<br/>2013</b> |
|                                       | <b>\$</b>                 | <b>\$</b>              | <b>\$</b>                | <b>\$</b>              |
| <b>Stock-based compensation:</b>      |                           |                        |                          |                        |
| General and administrative            | <b>313</b>                | 1,945                  | <b>367,484</b>           | 1,945                  |
| Sales and marketing                   |                           |                        |                          |                        |
| Research and development              |                           |                        |                          |                        |
| <b>Total stock-based compensation</b> | <b>313</b>                | 1,945                  | <b>367,484</b>           | 1,945                  |

*Valuation Assumptions*

The fair value of each option award (with exception of the amount attributable to the stock option repurchase discussed above) is estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

|  | <b>Three Months Ended</b> |                        | <b>Nine Months Ended</b> |                        |
|--|---------------------------|------------------------|--------------------------|------------------------|
|  | <b>May 31<br/>2014</b>    | <b>May 31<br/>2013</b> | <b>May 31<br/>2014</b>   | <b>May 31<br/>2013</b> |
| Expected term of stock options (years) |                           | 0.37-0.46              | <b>0.00-0.25</b>         | 0.37-0.46              |
| Expected volatility                    |                           | 49%-54%                | <b>48%-150%</b>          | 49%-54%                |
| Risk-free interest rate                |                           | 0.07%-0.09%            | <b>0.00%-0.14%</b>       | 0.07%-0.09%            |
| 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 options vested.

During the year ended August 31, 2013, the Company entered into a consulting agreement with a non-employee to provide investor relations consulting services and maximize shareholder value.

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

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

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

As part of the agreement, the Company has issued 75,000 options exercisable at \$0.85 per share. The options vest equally over twelve months following the signing of the agreement on March 15, 2013. The vested options of 40,625 during the nine months ended May 31, 2014 was measured using the Black-Scholes option-pricing model and amounted to \$32,948. The amount was expensed to general and administrative in the consolidated statement of operations and comprehensive income.

**[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, 2014, the Company recognized compensation expense of \$103,071 (May 31, 2013 \$89,286) 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 \$1.72 (May 31, 2013 \$0.75). The shares are held in trust by the Company for a period of one year from the date of purchase.

**5. COMMITMENTS**

On August 21, 2013 the Company entered into a lease agreement for its premises and it commenced on November 1, 2013 and will expire on December 31, 2014. The Company has fiscal year payments committed as follows:

|      | \$     |
|------|--------|
| 2014 | 68,858 |
| 2015 | 91,811 |

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

**5. COMMITMENTS (cont d.)**

During the nine months ended May 31, 2014 the Company incurred rent expense of \$198,668 (May 31, 2013: \$148,730) 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.

**6. RELATED PARTY TRANSACTIONS**

The Company entered into a consulting agreement with a Director effective October 1, 2010 which terminated on December 31, 2013. The Company paid \$2,000 per month, plus authorized expenses. During the nine months ended May 31, 2014, the Company paid consulting fees of \$8,000 (May 31, 2013 - \$18,000) under this agreement.

**7. INCOME TAX**

The Company has adopted the provisions of ASC 740, Income taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company and its subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well as income tax of multiple state and local jurisdictions. Based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for the tax years ended August 31, 1999 through August 31, 2013, the tax years which remain subject to examination by major tax jurisdictions as of May 31, 2014. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

**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.

**9. NEW ACCOUNTING PRONOUNCEMENTS**

*Recently adopted accounting pronouncements*

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

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.



**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

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

*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 April 2013, the FASB issued Accounting Standards Update 2013-07, Presentation of Financial Statements (Topic 205), Liquidation Basis of Accounting . The amendments of this Update are being issued to clarify when an entity should apply the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The amendments apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP except investment companies that are regulated under the Investment Company Act of 1940. The amendments are effective for entities that determine liquidation imminent during annual reporting periods beginning after December 15, 2013. The Company does not expect the adoption of this Update will have material impact on the consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09: Revenue from Contracts with Customers ( ASU 2014-09 ). ASU 2014-09 is the result of a joint project between FASB and the International Accounting Standards Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would:

1. Remove inconsistencies and weaknesses in revenue requirements.
2. Provide a more robust framework for addressing revenue issues.
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
4. Provide more useful information to users of financial statements through improved disclosure requirements.
5. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

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

To meet those objectives, the FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers, and the IASB is issuing IFRS 15, Revenue from Contracts with Customers. The issuance of these documents completes the joint effort by the FASB and the IASB to meet those objectives and improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS.

The guidance in this Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, this Update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition Construction-Type and Production-Type Contracts.

The ASU is effective for public entities with reporting periods beginning after December 15, 2016. Early adoption is not permitted. 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, 2014

**10. CONCENTRATIONS AND ECONOMIC DEPENDENCE**

The Company operates solely in the digital media software segment and all revenue from its products and services are made in this segment.

Revenue from external customers, by product and location of customer, is as follows:

|                          | <b>Three Months Ended</b> |                        | <b>Nine Months Ended</b> |                        |
|--------------------------|---------------------------|------------------------|--------------------------|------------------------|
|                          | <b>May 31<br/>2014</b>    | <b>May 31<br/>2013</b> | <b>May 31<br/>2014</b>   | <b>May 31<br/>2013</b> |
|                          | <b>\$</b>                 | <b>\$</b>              | <b>\$</b>                | <b>\$</b>              |
| <b>Play MPE®</b>         |                           |                        |                          |                        |
| North America            | <b>351,347</b>            | 327,278                | <b>953,642</b>           | 1,308,128              |
| Europe                   | <b>517,353</b>            | 485,619                | <b>1,522,074</b>         | 1,284,633              |
| Australasia              | <b>53,180</b>             | 32,542                 | <b>114,834</b>           | 102,341                |
| Total Play MPE®          | <b>921,880</b>            | 845,439                | <b>2,590,550</b>         | 2,695,102              |
| <b>Clipstream ®</b>      |                           |                        |                          |                        |
| North America            | <b>20,592</b>             | 28,427                 | <b>85,145</b>            | 122,953                |
| Outside of North America |                           |                        |                          |                        |
| Total Clipstream ®       | <b>20,592</b>             | 28,427                 | <b>85,145</b>            | 122,953                |
| <b>Total revenue</b>     | <b>942,472</b>            | 873,866                | <b>2,675,695</b>         | 2,818,055              |

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. One customer, representing 49% of total revenue for the period ending May 31, 2014, consolidated affiliated members, effective March 1, 2013, under one global agreement located in Europe. As a result, global revenue associated with this customer for the period ending May 31, 2014 is included in European revenue. In the comparative period in the prior year, this customer represented 53% of revenue and that revenue was allocated to both North America (14%) and Europe (39%). As a result, there is a movement in the location of the source of the revenue which does not reflect underlying distribution activities.

As at May 31, 2014, one customer represented \$290,098 (60%) of the trade receivables balance [August 31, 2013 one customer represented 67%].

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Nine months ended May 31, 2014

**10. CONCENTRATIONS AND ECONOMIC DEPENDENCE (cont d.)**

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

**11. SUBSEQUENT EVENTS**

On May 23, 2014, the Board of Directors set the annual compensation payable to each member of the Board of Directors at \$48,000 per annum for the period from June 1, 2014 to May 31, 2015 (the Director Compensation ). The Director Compensation is in addition to any existing compensation paid to the executive director of the Company.

On June 13, 2014, the Company closed its private placement to its Directors for 128,701 shares of common stock at \$0.96 per share for gross proceeds of \$123,553.

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**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. 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 the consolidated activities of all four companies.

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

Our common stock trades on TSX Venture Exchange in Canada under the symbol DSY, on the 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.dsnny.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.

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## **Play MPE®**

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

## **RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2014 AND 2013**

### **Revenue**

Total revenue for the three months ended May 31, 2014 grew by 8% over the same quarter in the prior year to \$942,472 (May 31, 2013 - \$873,866) and grew by 16% over the immediately preceding quarter. This increase is due to the growth in revenue with our Play MPE® promotional music distribution service which currently accounts for 98% of the Company's revenue. The growth in Play MPE® is primarily the result of continued strong performance in the independent market in the United States where the Company has seen growth in revenue, when comparing like quarters, in 23 of the 24 quarters since inception and with recovery in market share in Australia with the addition of an agreement with Sony Music Entertainment Australia which became effective during the quarter.

The third quarter in fiscal 2014 represents the first quarter following the anniversary of a renewal with our largest customer. This agreement consolidated territorial agreements into one global distribution agreement and eliminated certain pricing inefficiencies, which, while usage continues to grow, represented a decline in pricing for this customer and a decline in revenue. Accordingly our nine months results include one quarter where this agreement is consistent with the prior year and two quarters that include different pricing models. As a result, total revenue for the nine months ended May 31, 2014 show a decrease of 5% over the nine months ended May 31, 2013 to \$2,675,695 (May 31, 2013 - \$2,818,055).

Approximately 59% of our Play MPE® revenue is denominated in Euros for the nine months ended May 31, 2014. European revenue is currently concentrated in the United Kingdom and the Scandinavian countries. Approximately 37% of Play MPE® revenue is denominated in US Dollars and 4% of Play MPE® revenue is denominated in Australia Dollars for the nine months ended May 31, 2014.

### **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.

Total operating costs for the quarter increased by 2.6% to \$880,130 (May 31, 2013 - \$858,178) as a result of small increases related to the Clipstream® business. Total operating expenditures for the nine months ended May 31, 2014 have increased by 14% over the same period in the prior year to \$2,973,440 (May 31, 2013 - \$2,604,853). The increase is attributable to one time costs of approximately \$335,000 associated with the repurchase of options charged to

general and administration expense, increased rent, fees associated with preparing for a list on NASDAQ, and increased shareholders relations expenses. Excluding the one time costs related to the repurchase of options, our operating expenditures for the nine months ended May 31, 2014 grew by just over 1% over the prior year.

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| <b>General and administrative</b> | <b>31-May<br/>2014</b> | <b>31-May<br/>2013</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|-----------------------------------|------------------------|------------------------|----------------------|---------------------|
|                                   | (9 months)             | (9 months)             |                      |                     |
|                                   | \$                     | \$                     |                      |                     |
| Wages and benefits                | 595,046                | 290,067                | 304,979              | 105.1%              |
| Rent                              | 31,139                 | 24,156                 | 6,983                | 28.9%               |
| Telecommunications                | 12,325                 | 13,262                 | (937)                | (7.1%)              |
| Bad debt                          | (3,335)                | 5,893                  | (9,228)              | (156.6%)            |
| Office and miscellaneous          | 232,185                | 204,476                | 27,709               | 13.6%               |
| Professional fees                 | 174,160                | 137,600                | 36,560               | 26.6%               |
|                                   | 1,041,520              | 675,454                | 366,066              | 54.2%               |

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

The increase in wages and benefits is due to the costs related to repurchase of options described above. The increase in professional fees is primarily related to non-recurring legal advice surrounding a NASDAQ listing application and addressing various associated United States securities issues. The increase in office and miscellaneous is due to the costs related to shareholder relations consulting services received in current period, which is partially offset by the foreign exchange gains during the current period as a result of fluctuations in the value of the Euro and Australia dollar impacting cash and accounts receivable balances denominated in those currencies.

| <b>Sales and marketing</b> | <b>31-May<br/>2014</b> | <b>31-May<br/>2013</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|----------------------------|------------------------|------------------------|----------------------|---------------------|
|                            | (9 months)             | (9 months)             |                      |                     |
|                            | \$                     | \$                     |                      |                     |
| Wages and benefits         | 750,323                | 440,487                | 309,836              | 70.3%               |
| Rent                       | 88,622                 | 36,682                 | 51,940               | 141.6%              |
| Telecommunications         | 35,077                 | 20,140                 | 14,937               | 74.2%               |
| Meals and entertainment    | 11,642                 | 9,058                  | 2,584                | 28.5%               |
| Travel                     | 58,012                 | 35,108                 | 22,904               | 65.2%               |
| Advertising and marketing  | 113,545                | 109,617                | 3,928                | 3.6%                |
|                            | 1,057,221              | 651,092                | 406,129              | 62.4%               |

Sales and marketing costs 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 the Company's allocation of Play MPE® staff on marketing and promotional activities. Rent expense has increased as a result of increased monthly rent in current period and rent abatement received during the comparative period. The increase in travel is the result of marketing our products internationally.

| <b>Research and development</b> | <b>31-May<br/>2014</b> | <b>31-May<br/>2013</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|---------------------------------|------------------------|------------------------|----------------------|---------------------|
|                                 | (9 months)             | (9 months)             |                      |                     |
|                                 | \$                     | \$                     |                      |                     |
| Wages and benefits              | 660,136                | 1,055,430              | (395,294)            | (37.5%)             |
| Rent                            | 78,907                 | 87,892                 | (8,985)              | (10.2%)             |
| Telecommunications              | 31,232                 | 49,329                 | (18,097)             | (36.7%)             |
| Research and development        | 361                    | 864                    | (503)                | (58.2%)             |
|                                 | 770,636                | 1,193,515              | (422,879)            | (35.4%)             |



Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The decrease in wages and benefits is primarily due to a shift of Company's Play MPE® staff from the development of a new version of the recipient software to business development related activities including customer visits and promotion.

### Amortization

Amortization expense arises from property and equipment, and from patents and trademarks. Amortization increased to \$104,063 for the nine months ended May 31, 2014 from \$84,792 for the nine months ended May 31, 2013, an increase of \$19,271 or 23% as a result of additional servers purchased for our Play MPE® operations and patent applications.

### Other earnings and expenses

Interest income decreased to \$47,405 for the nine months ended May 31, 2014 from \$59,641 for the nine months ended May 31, 2013, a decrease of \$12,236. 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

The Company had net income of \$80,100 for the quarter compared to \$26,595 in the same period of the prior year, representing a growth of \$53,505. During the nine months ended May 31, 2014 we have net loss of \$250,340 (May 31, 2013 net income of \$199,843). The reduction in net income is primarily due to the costs related to repurchase of options and the result of a reduction in revenue associated with the elimination of contractual inefficiencies to our largest customer.

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

|                              | 2012 Q4 | 2013 Q1 | 2013 Q2 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2   | 2014 Q3 |
|------------------------------|---------|---------|---------|---------|---------|---------|-----------|---------|
|                              | \$      | \$      | \$      | \$      | \$      | \$      | \$        | \$      |
| <b>Net Income (Loss)</b>     | 185,560 | 160,050 | 13,198  | 26,595  | 26,171  | 44,393  | (374,833) | 80,100  |
| Amortization and stock based | 34,220  | 27,656  | 28,390  | 30,692  | 57,217  | 54,166  | 42,877    | 39,968  |

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|                        |          |          |          |          |          |          |           |          |
|------------------------|----------|----------|----------|----------|----------|----------|-----------|----------|
| compensation           |          |          |          |          |          |          |           |          |
| Interest income        | (20,434) | (20,666) | (20,068) | (18,907) | (18,494) | (16,823) | (15,824)  | (14,758) |
| Income tax             | 18,000   | 65,000   |          | 8,000    | 15,000   | 24,000   | (21,000)  | (3,000)  |
| <b>Adjusted EBITDA</b> | 217,346  | 232,040  | 21,520   | 46,380   | 79,894   | 105,736  | (368,780) | 102,310  |

During the three months ended May 31, 2014, we have adjusted EBITDA of \$102,310 as result of growth of MPE in the quarter.

## LIQUIDITY AND FINANCIAL CONDITION

We had cash of \$1,038,930 as at May 31, 2014 (August 31, 2013 \$1,521,552). We had working capital of \$1,556,004 as at May 31, 2014 compared to working capital of \$1,878,149 as at August 31, 2013. The decrease in our working capital was due to a decrease in our cash balance.

## CASHFLOWS

Net cash used in operating activities was \$227,389 for the nine months ended May 31, 2014, compared to net cash provided of \$147,146 for the nine months ended May 31, 2013. The reduction in cash provided by operations was primarily due to a one time cash payout related to repurchase and reduction in the number of outstanding options.

Net cash used in investing activities was \$191,598 for the nine months ended May 31, 2014, compared to net cash used of \$50,403 for the nine months ended May 31, 2013. The increase in net cash used in investing activities is largely attributable to bolstering our global server infrastructure and patent applications in current period.

Net cash used in financing activities was \$11,965 for the nine months ended May 31, 2014 compared to net cash used of \$99,762 for the nine months ended May 31, 2013. The change is the result of reimplementing of the share buyback program during comparable period.

## RECENT ACCOUNTING PRONOUNCEMENTS

### *Recently adopted accounting pronouncements*

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

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1. Remove inconsistencies and weaknesses in revenue requirements.
2. Provide a more robust framework for addressing revenue issues.
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
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5. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

To meet those objectives, the FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers, and the IASB is issuing IFRS 15, Revenue from Contracts with Customers. The issuance of these documents completes the joint effort by the FASB and the IASB to meet those objectives and improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS.

The guidance in this Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, this Update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition Construction-Type and Production-Type Contracts.

The ASU is effective for public entities with reporting periods beginning after December 15, 2016. Early adoption is not permitted. 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.

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

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

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

### ***Stock-Based Compensation***

We recognize the costs of employee services received in share-based payment transactions according to the fair value provisions of the current share-based payment guidance. The fair value of employee services received in stock-based payment transactions is estimated at the grant date and recognized over the requisite service period. Determining the appropriate fair value model and calculating the fair value of stock-based awards requires judgment, including estimating stock price volatility, forfeiture rates and expected life.

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

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

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

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

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

We extend credit to our customers based on evaluation of an individual customer's financial condition and collateral is generally not required. Accounts outstanding beyond the contractual payment terms are considered 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.

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### ***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, 2013.

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 \$859,000.

### ***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, 2014, as a result of fluctuations in the Euro, and the Australian, Canadian, and US dollars, the Company realized positive impacts on net income through favorable impacts on revenue and expenses.

**Item 4. Controls and Procedures.**  
**Disclosure Controls and Procedures**

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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, 2014, 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**

During the period covered by this quarterly report, the audit committee has been adjusted so that it is independent, including three independent members and a financial expert. The weakness and risk described in our Form 10-K for the fiscal year ended August 31, 2013 has been mitigated.

## **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, 2013 filed with the SEC on November 25, 2013. 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.

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**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 14, 2014

/s/Frederick Vandenberg

Frederick Vandenberg, Chief Financial Officer  
Date: July 14, 2014

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