DESTINY MEDIA TECHNOLOGIES INC
Form 10-Q
January 14, 2015

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **November 30, 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)

NEVADA	**84-1516745**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Suite 750, PO Box 11527, 650 West Georgia Street, Vancouver, British Columbia, Canada	**V6B 4N7**
(Address of principal executive offices)	(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.
[X] 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)
[X] 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 [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
[ ] Yes [X] 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 January 13, 2015 was 52,993,874.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Condensed Consolidated Financial Statements

Destiny Media Technologies Inc.
(Unaudited)
Three months ended November 30, 2014
(Expressed in United States dollars)

Destiny Media Technologies Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Expressed in United States dollars)
Unaudited

As at

	November 30, 2014	August 31, 2014
	$	$
ASSETS		
Current		
Cash and cash equivalents	**876,527**	990,007
Accounts receivable, net of allowance for doubtful accounts of $6,129 [Aug 31, 2014 $5,513]	**575,955**	544,609
Other receivables	**83,713**	78,040
Current portion of long term receivable *[note 3]*	**107,830**	115,464
Prepaid expenses	**107,928**	147,206
Total current assets	**1,751,953**	1,875,326
Deposits	**21,795**	22,870
Long term receivable *[note 3]*	**286,830**	345,830
Property and equipment, net	**282,608**	315,180
Deferred tax assets long term portion	**842,000**	842,000
Total assets	**3,185,186**	3,401,206
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	**126,135**	172,617
Accrued liabilities	**203,849**	203,353
Deferred revenue	**2,627**	22,589
Total liabilities	**332,611**	398,559
Commitments and contingencies *[notes 5 and 8]*		
Stockholders equity		
Common stock, par value $0.001 *[note 4]*		
Authorized: 100,000,000 shares		
Issued and outstanding: 52,993,874 shares		
[Aug 31, 2014 issued and outstanding 52,993,874 shares]	**52,994**	52,994
Additional paid-in capital	**9,068,522**	9,061,325
Accumulated deficit	**(6,167,724)**	(6,111,415)
Accumulated other comprehensive (loss)	**(101,217)**	(257)
Total stockholders equity	**2,852,575**	3,002,647
Total liabilities and stockholders equity	**3,185,186**	3,401,206

See accompanying notes

Destiny Media Technologies Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Expressed in United States dollars)
Unaudited

Three months ended November 30,

	2014	2013
	$	$
Service revenue *[note 10]*	**955,070**	922,541
Operating expenses		
General and administrative	**293,658**	243,499
Sales and marketing	**331,013**	331,641
Research and development	**363,969**	264,484
Depreciation and amortization	**35,785**	31,347
	1,024,425	870,971
Income (loss) from operations	**(69,355)**	51,570
Other income		
Interest income	**13,046**	16,823
Income (loss) before provision for income taxes	**(56,309)**	68,393
Deferred income tax expense		(24,000)
Net income (loss)	**(56,309)**	44,393
Other comprehensive loss, net of tax		
Foreign currency translation adjustments	**(100,960)**	(14,550)
Total comprehensive income (loss)	**(157,269)**	29,843
Net income (loss) per common share, basic and diluted	**(0.00)**	0.00
Weighted average common shares outstanding:		
Basic	**52,993,874**	51,998,397
Diluted	**52,993,874**	53,418,156

See accompanying notes

Destiny Media Technologies Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Expressed in United States dollars)
Unaudited

	Common stock Shares	Amount	Additional paid-in capital	Accumulated Deficit	Accumulated other comprehensive Income (loss)	Total stockholders equity
	#	$	$	$	$	$
Balance, August 31, 2013	**51,981,964**	**51,982**	**8,929,384**	**(5,787,016)**	**88,657**	**3,283,007**
Total comprehensive income (loss)				(324,399)	(88,914)	(413,313)
Common stock issued on private placement	128,701	129	111,841			111,970
Common stock issued on options exercised	883,209	883	100,367			101,250
Repurchase of options			(113,215)			(113,215)
Stock based compensation			32,948			32,948
Balance, August 31, 2014	**52,993,874**	**52,994**	**9,061,325**	**(6,111,415)**	**(257)**	**3,002,647**
Total comprehensive (loss)				(56,309)	(100,960)	(157,269)
Stock based compensation Note 4			7,197			7,197
Balance, November 30, 2014	**52,993,874**	**52,994**	**9,068,522**	**(6,167,724)**	**(101,217)**	**2,852,575**

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)
Unaudited

Three months ended November 30,

	2014 $	2013 $
OPERATING ACTIVITIES		
Net income	**(56,309)**	44,393
Items not involving cash:		
Depreciation and amortization	**35,785**	31,347
Stock-based compensation	**7,197**	22,819
Deferred leasehold inducement		(2,929)
Deferred income taxes		24,000
Unrealized foreign exchange	**19,312**	(13,510)
Changes in non-cash working capital:		
Accounts receivable	**(58,188)**	(179,998)
Other receivables	**(9,544)**	9,193
Prepaid expenses and deposits	**37,470**	(965)
Accounts payable	**(39,225)**	65,023
Accrued liabilities	**10,273**	28,209
Deferred revenue	**(19,311)**	(29,679)
Long term receivable	**26,607**	24,532
Net cash provided (used) by operating activities	**(45,933)**	22,435
INVESTING ACTIVITIES		
Purchase of property and equipment	**(17,647)**	(78,768)
Net cash used in investing activities	**(17,647)**	(78,768)
FINANCING ACTIVITIES		
Net cash used in financing activities		
Effect of foreign exchange rate changes on cash	**(49,900)**	(6,732)
Net decrease in cash during the period	**(113,480)**	(63,065)
Cash, beginning of the period	**990,007**	1,521,552
Cash, end of the period	**876,527**	1,458,487
Supplementary disclosure		
Interest paid		
Income taxes paid		

See accompanying notes

Destiny Media Technologies Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited

Three months ended November 30, 2014 and 2013

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 three months ended November 30, 2014 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

Three months ended November 30, 2014 and 2013

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 November 30, 2014, installments of $535,550AUD including interest of $174,856AUD have 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 three months ended November 30, 2014, no shares were issued.

[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 8,181 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 Plans as of November 30, 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

Three months ended November 30, 2014 and 2013

4. STOCKHOLDERS EQUITY (cont d.)

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value $
Outstanding at August 31, 2014	**545,000**	**0.95**	**2.55**	**67,500**
Issued				
Exercised				
Outstanding at November 30, 2014	**545,000**	**0.95**	**2.30**	
Vested and exercisable at November 30, 2014	**225,000**	**0.50**	**0.18**	

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company s common stock for the options that were in-the-money at November 30, 2014.

The following table summarizes information regarding the non-vested stock purchase options outstanding as of November 30, 2014:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested options at August 31, 2014	**320,000**	**0.23**
Granted		
Vested		
Non-vested options at November 30, 2014	**320,000**	**0.23**

As of November 30, 2014, there was $40,841 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 1.65 years.

During the three months ended November 30, 2014 and 2013, stock-based compensation expense has been reported in the consolidated statement of operations and comprehensive income as follows:

Destiny Media Technologies Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited

Three months ended November 30, 2014 and 2013

4. STOCKHOLDERS EQUITY (cont d.)

	Three Months Ended November 30,	
	2014	2013
	$	$
Stock-based compensation		
General and administrative	**5,038**	22,819
Sales and marketing	**2,159**	
Research and development		
Total stock-based compensation	**7,197**	22,819

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:

	2014	2013
	$	$
Expected term of stock options (years)		0.12-0.25
Expected volatility		50-72%
Risk-free interest rate		0.01%-0.14%
Dividend yields		

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.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited

Three months ended November 30, 2014 and 2013

4. STOCKHOLDERS EQUITY (cont d.)

The maximum annual combined contributions will be $400,000. All purchases are made through the Toronto Stock Exchange by a third party plan agent. The third party plan agent will also be responsible for the administration of the Plan on behalf of Destiny and the participants.

During the three months ended November 30, 2014, the Company recognized compensation expense of $13,906 (2013 - $13,499) 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 $0.54 (2013 - $2.18) . 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 was extended to expire on January 31, 2015. In December 2014, the Company entered into a lease agreement commencing May 1, 2015 and expiring June 29, 2017 for a new premise with free occupation from December 2014 to April 2015. The Company has fiscal year payments committed as follows:

	$
2015	146,426
2016	308,563
2017	257,136

During the three months ended November 30, 2014 the Company incurred rent expense of $67,826 (2013 - $59,879) 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).

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 three months ended November 30, 2014, the Company paid consulting fees of $19,681 (2013 - $Nil) under this agreement.

Destiny Media Technologies Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
Unaudited

Three months ended November 30, 2014 and 2013

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, 2014, the tax years which remain subject to examination by major tax jurisdictions as of November 30, 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.

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

Three months ended November 30, 2014 and 2013

9. 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

Three months ended November 30, 2014 and 2013

10. CONCENTRATIONS AND ECONOMIC DEPENDENCE

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

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

	Three Months Ended November 30,	
	2014	2013
	$	$
Play MPE®		
North America	**381,917**	335,277
Europe	**485,333**	515,685
Australia	**76,018**	33,486
Total Play MPE® Revenue	**943,268**	884,448
Clipstream ® and Radio Destiny		
North America	**11,802**	38,093
Total Clipstream ® & Radio Destiny Revenue	**11,802**	38,093
Total Revenue	**955,070**	922,541

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 three months ended November 30, 2014, the Company generated 42% of total revenue from one customer and 11% of total revenue from another customer [2013 - one customer represented 47%].

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

As at November 30, 2014, one customer represented $395,815 (69%) of the trade receivables balance [2013 one customer represented 74%].

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

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD LOOKING STATEMENTS

The following discussion should be read in conjunction with the accompanying financial statements and notes thereto included within this Quarterly Report on Form 10-Q. In addition to historical information, the information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (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 c 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 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.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.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2014 AND 2013

Revenue

Total revenue for the three months ended November 30, 2014 grew by 4% over the three months ended November 30, 2013 to $955,070 (November 30, 2013 $922,541) as a result of a 7% growth in Play MPE® revenue which currently accounts for 99% of the Company s revenue. The growth in Play MPE® is primarily the result of continued strong performance in the United States and Australia. In the United States, Play MPE® continues to see growth in independent label revenue (8% growth over the three months ended November 30, 2013), and other Major record labels. In Australia, Play MPE® has shown strong recovery in market share with the addition of Sony Music Entertainment in March 2014 and strong growth in independent label revenue.

Approximately 51% of our Play MPE® revenue is denominated in Euros for the three months ended November 30, 2014. European revenue is currently concentrated in the United Kingdom and the Scandinavian countries. Approximately 40% of Play MPE® revenue is denominated in US Dollars and 8% of Play MPE® revenue is denominated in Australia Dollars for the three months ended November 30, 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 expenditures for the three months ended November 30, 2014 has increased by 17.6% over the same period in the prior year to $1,024,425 (November 30 2013 $870,971) mainly as a result of increased staffing related to the Clipstream® business.

General and administrative	**30-Nov 2014** (3 months) $	**30-Nov 2013** (3 months) $	**$ Change**	**% Change**
Wages and benefits	123,365	83,264	40,101	48.2%
Rent	11,662	9,053	2,609	28.8%
Telecommunications	4,304	3,740	564	15.1%
Bad debt	895	3,179	(2,284)	(71.8%)

Office and miscellaneous	116,774	80,662	36,112	44.8%
Professional fees	36,658	63,601	(26,943)	(42.4%)
	293,658	243,499	50,159	20.6%

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 increased focus on managing overall Clipstream® business. The increase in office and miscellaneous is due to the foreign exchange losses 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.

Sales and marketing	**30-Nov 2014** (3 months) $	**30-Nov 2013** (3 months) $	**$ Change**	**% Change**
Wages and benefits	254,844	238,212	16,632	7.0%
Rent	24,818	25,900	(1,082)	(4.2%)
Telecommunications	9,159	10,699	(1,540)	(14.4%)
Meals and entertainment		6,342	(6,342)	(100.0%)
Travel	16,666	17,564	(898)	(5.1%)
Advertising and marketing	25,526	32,924	(7,398)	(22.5%)
	331,013	331,641	(628)	(0.2%)

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The increase in wages and benefits is mainly due to an increased cost on marketing activities related to Clipstream® business.

Research and development	**30-Nov 2014** (3 months) $	**30-Nov 2013** (3 months) $	**$ Change**	**% Change**
Wages and benefits	318,052	229,261	88,791	38.7%
Rent	31,346	24,926	6,420	25.8%
Telecommunications	11,568	10,297	1,271	12.3%
Research and development	3,003		3,003	N/A
	363,969	264,484	99,485	37.6%

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 related to the Clipstream® business.

Amortization

Amortization expense arises from property and equipment, and from patents and trademarks. Amortization increased to $35,785 for the three months ended November 30, 2014 from $31,347 for the three months ended November 30, 2013, an increase of $4,438 or 14% as a result of patent application costs.

Other earnings and expenses

Interest income decreased to $13,046 for the three months ended November 30, 2014 from $16,823 for the three months ended November 30, 2013, a decrease of $3,777. 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 three months ended November 30, 2014 we have net loss of $56,309 (November 30, 2013 net income of $44,393). The reduction in net income is primarily the result of increased staffing related to Clipstream® business including our Chief Operating Officer, senior developers and dedicated quality assurance staff and unfavorable exchange rates fluctuation.

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:

	2013 Q2	**2013 Q3**	**2013 Q4**	**2014 Q1**	**2014 Q2**	**2014 Q3**	**2014 Q4**	**2015 Q1**
	$	$	$	$	$	$	$	$
Net Income	13,198	26,595	26,171	44,393	(374,833)	80,100	(74,059)	(56,309)
Amortization and stock based compensation	28,390	30,692	57,217	54,166	42,877	39,968	44,102	42,982
Interest income	(20,068)	(18,907)	(18,494)	(16,823)	(15,824)	(14,758)	(13,961)	(13,046)
Income tax		8,000	15,000	24,000	(21,000)	(3,000)	17,000	
Adjusted EBITDA	21,520	46,380	79,894	105,736	(368,780)	102,310	(26,918)	(26,373)

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $876,527 as at November 30, 2014 (August 31, 2014 $990,007). We had working capital of $1,419,342 as at November 30, 2014 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.

CASHFLOWS

Net cash used by operating activities was $45,933 for the three months ended November 30, 2014, compared to net cash provided of $22,435 for the three months ended November 30, 2013. The main reason for the increase in net cash flows used in the operating activities was primarily due to the increased cost related to Clipstream® staffing.

Net cash used in investing activities was $17,647 for the three months ended November 30, 2014, compared to net cash used of $78,768 for the three months ended November 30, 2013. The decrease in net cash used in investing activities is largely attributable to servers purchased for our operation of Play MPE® product in the comparative period.

There were no cash used or provided in financing activities for the three months ended November 30, 2014 and 2013.

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 have yet have a standard business practice for contracts that contain extended payment terms, and therefore recognizes revenue from such contracts when the payment terms lapse and all other revenue criteria have been met.

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

Stock-Based Compensation

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

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

Research and Development Expense for Software Products

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Income Taxes

Deferred income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates by tax jurisdiction at each balance sheet date. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We evaluate all available evidence, such as recent and expected future operating results by tax jurisdiction, and current and enacted tax legislation and other temporary differences between book and tax accounting to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. There is a risk that management estimates for operating results could vary significantly from actual results, which could materially affect the valuation of the future income tax asset. Although the Company has tax loss carry-forwards and other deferred income tax assets, management has determined certain of these deferred tax assets do not meet the more likely than not criteria, and accordingly, these deferred income tax asset amounts have been partially offset by a valuation allowance as disclosed in Note 6 of our annual consolidated financial statements for the year ended August 31, 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 three months ended November 30, 2014, as a result of strength of the US dollars, 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 November 30, 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

There are no changes in internal control over financial reporting during the three months ended November 30, 2014.

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: January 14, 2015

/s/Frederick Vandenberg
Frederick Vandenberg, Chief Financial Officer
Date: January 14, 2015