DESTINY MEDIA TECHNOLOGIES INC
Form 10-K
November 29, 2016

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

FORM 10-K

(Mark One)

[X] **Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act Of 1934**

For the fiscal year ended **August 31, 2016**

[ ] **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.
(Name of registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	**84-1516745** (I.R.S. Employer Identification No.)
1110 - 885 West Georgia Street, **Vancouver, British Columbia, Canada** (Address of principal executive offices)	**V6B 4N7** (Zip Code)
604-609-7736 Registrant's telephone number, including area code	
Securities registered under Section 12(b) of the Exchange Act:	**NOT APPLICABLE**
Securities registered under Section 12(g) of the Exchange Act:	**COMMON STOCK, $0.001 PAR VALUE PER SHARE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ] Yes [**X**] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
[ ] Yes [**X**] No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[ ] Yes [**X**] 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant s most recently completed second fiscal quarter was $10,616,336.

The number of shares outstanding of the registrant s common stock, par value $0.001, as of November 28, 2016 was 55,013,874.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

FORWARD LOOKING STATEMENTS

The information in this Annual Report on Form 10-K 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 Destiny Media'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", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below under Item 1A. Risk Factors , and, from time to time, in other reports Destiny Media files with the SEC. These factors may cause Destiny Media's actual results to differ materially from any forward-looking statements. Destiny Media 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.

CURRENCY

All dollar amounts in this Annual Report on Form 10-K are presented in United States dollars unless otherwise indicated.

ITEM 1. BUSINESS.

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 , we or us refers consolidated activities of all four companies.

Our principal executive office is located at Suite 1110, 885 West Georgia Street, Vancouver, British Columbia V6C 3E8. Our telephone number is (604) 609-7736 and our facsimile number is (604) 609-0611.

Our common stock trades on TSX Venture Exchange in Canada under the symbol DSY , on the OTCQB U.S. (OTCQB) 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 instant play streaming media technologies.

1. The Clipstream® Online Video Platform (OVP) is a self-service, high capacity, and high performance system, for encoding, hosting and reporting on video playback which can be embedded in third party websites or emails. Playback is currently through the Company s proprietary JavaScript codec engine, which is only available on the internet through the Company. Support for other video playback technologies and new features are being built out for the solution. Until additional features are added, this product is marketed in a limited way and has incidental revenues.

The encoding and hosting platform also includes a solution for companies that intend to offer Clipstream® functionality within their own services. This offering is a connector that enables the integration of the encoding and rendering engine and the hosting back end into other solutions. An Application Program Interface (API) connects the same encoding and playback infrastructure used by the Company's cloud solution into their own software and web based solutions. The Company can target many niches with the API. Examples of potential applications we could target include realtors uploading video to their local real estate site, consumers uploading video to classified and dating sites, enabling online retailers to provide product videos to manufacturers, ISP's offering video to their own hosting customers and many others.

2. The Clipstream® JavaScript codec engine was updated in October 2016 replacing a proprietary compression format the Company abandoned because of quality concerns. This new codec engine is based on the latest compression techniques from the next-generation HEVC standard, and is a significant improvement. It offers double the quality at a 62% bandwidth reduction from the previous proprietary codec. Similarly, it offers a large bandwidth improvement over H.264, the compression technology commonly used by other OVP solutions. As an example, video which would take 2.5 Mbps in H.264 (a format used by Youtube) only takes 1.8Mbps. This can lead to reduced costs, and less re-buffering for end users.

The unique software based approach to rendering video, is protected by over two dozen patents claiming initial priority to 2011 has a number of advantages over the more traditional approach of using plug-ins (for example, Flash), browser supported formats (for example, H.264) or installed chips. With the JavaScript codec approach, the Company can offer new features such as enhanced security, interactivity, and future proofing of their content. A new feature can be created and applied cross platform for all HTML5 compliant devices without a rollout period. This feature is currently only available as a component of the Clipstream® OVP solution but the Company will seek licensing opportunities in the future.

3. The Play MPE® digital distribution service is used commercially by the recording industry to distribute new pre-release music and music videos to trusted recipients such as radio and press before that content is generally available for sale to the public.

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 delivered.

Record labels around the world, including all three major labels (Universal Music Group, Warner Music Group and Sony Music Entertainment), are regularly using Play MPE® to deliver their content to radio.

Each distribution is initiated by our customers, who encode the content and enter the appropriate data. Our software has a tiered permissions based access allowing our clients to assign varying rights, capabilities and responsibilities to different members of their staff. For example, some customer staff may manage assets (album cover imagery, music videos, the raw music, promotional information and other metadata), while others manage hierarchical permission based lists of recipients. Larger labels are normally structured into label groups, each with their own labels with varying access (permissions) to various subsets of the master recipient lists.

The release dates for music can be dependent on the territory and, where administrative settings permit, local promotions staff may generate a localized distribution of the song with modified marketing information in the local language. Local staff may select pre-existing assets from the system and combine them together with a local recipient lists to form a send . Our customers also choose the level of access for the recipients assigned to the release by designating whether the release can be streamed, downloaded, exported into an unlocked digital format or burned to a CD.

While many clients are set up to manage and upload recipient lists, most rely on the proprietary Play MPE® network, which is quickly becoming a valuable asset to the industry. Our staff manages lists of recipients in various formats and those lists are made available to our customers using the Play MPE® system. The Play MPE® system provides Play MPE® staff with the feedback and resources necessary to manage and maintain this network of recipients which is not available with physical distribution or by smaller competitors. Customers select lists of recipients within the proprietary network based on music format and geography. In 2016 these lists were expanded to new territories, including Sweden and Denmark, and to include a list of music supervisors and influencers responsible for music selection for TV and Movie production was added. Expanding these lists allows customers to reach more recipients with each release increase the value of the Play MPE® system.

Staff who encode each release have control over the access rights, whether the system should automatically generate a template driven marketing email alert, whether the song should be locked to the recipient computer and which partner sites should have access to the content.

On the impact date, the send appears in the available tracks section of a recipient s account. Recipients can access these tracks through proprietary iPhone, Mac and Windows based players, through a Direct to Web browser interface supporting playerless streaming and download, or through partner sites, including integration into reporting systems, radio automation systems, or through custom direct integration. Destiny's proprietary applications offer popular features, such as the ability to drag and drop to build and burn playlists to CD's for music meetings, the ability to convert and export into a wide variety of formats and to export metadata automatically into third party applications and solutions. In 2016 we made it even easier for decision makers in radio, press, TV, and film to use the Play MPE® service with a new secure streaming audio preview feature. The enhancement allows Play MPE® recipients to quickly hear a short preview of a song directly from the notification email without having to login.

Destiny's servers also generate a marketing website (http://daily.plaympe.com) which promotes new music. The system automatically generates charts of the most popular music on the system. These charts can be syndicated to third parties.

All exported songs are marked in real time with Destiny s watermark technology, which has received three US patents and a number of analogous patents globally. Songs that appear on the internet are scanned by the International Federation of the Phonographic Industry s (IFPI) for our watermark. Headquartered in London, UK, the IFPI is the organization that represents the interests of the recording industry worldwide and one of its missions is to safeguard the rights of record producers. IFPI web crawlers visit torrents, peer to peer networks and websites searching for unauthorized content. When problem files are identified, the IFPI software looks for Destiny s watermark in the content to identify the originating source. If a mark is found, Destiny's server and the originating label are automatically contacted so that recipient can be disabled from the system and appropriate action can be taken against the individual to hold that recipient accountable for the unauthorized distribution.

After the content is released, all activity by the recipient is logged in real time, providing record labels and promotions staff real time detail on which songs are accessed, streamed, downloaded and exported. This contrast with physical distribution where record labels may be unsure whether the courier package went to the correct individual or whether it was ever opened. This information provides invaluable feedback in real time to marketing and promotions staff who can cater their programs appropriately. Recipients receive a custom library of available tracks and are able to repeat the download if music is lost.

Real time usage statistics for Play MPE® are available at: http://www.dsny.com/play-mpe-stats

Starting in July 2016 the first stage of a completely browser based encoder was launched. When all stages are complete, this system will be accessible on any computer without installation and will completely replace many of the current Windows based desktop tools. It is expected that this new solution will increase usage of Play MPE® by providing an easier to use, more intuitive experience, providing access to both Mac and PC users, providing new release creation workflows, and more configuration options. It also allows for easy translation to accelerate international expansion.

In 2016 all Play MPE® services were migrated to a cloud computing platform. Previously, the system was hosted at five server facilities (three in North America, one in Europe and one in Australia). This process required Destiny staff to manage multiple physical servers and operating systems at each location and to deal with remote hardware equipment maintenance. A large investment in infrastructure was required on an ongoing basis as storage arrays and servers were regularly replaced. Scalability was limited by physical real estate at the co-location facilities and access to electricity and cooling. The new approach increased Destiny's global server footprint by 1,500% with the ability to scale further in response to market demand. Audio encoding capacity increased 600%, and global streaming capacity increased 265%, allowing individual watermarks to be embedded faster. Server capacity is virtually unlimited and can respond to market demands. Migrating to a cloud platform provides the ability to scale automatically in response to market demand and expanded the logging and failover recovery services that ensure the system remains available. Other system features added since the migration to a cloud platform have enabled more rapid and proactive support of customer issues and leverage the latest cloud computing technologies to reduce the time required for the development and testing of new services.

We continue to invest in new development which should lead to higher usage.

BUSINESS DEVELOPMENT

Play MPE®

During the year ended August 31, 2016, we generated revenues of $3,337,813, of which 98% was derived from Play MPE®.

In November 2015, a new Play MPE logo and website were launched. The updated website focused on clearly communicating with customers.

Also in November 2015, a reselling partner was added in Scandinavia covering Denmark, Norway, Sweden, Finland, Iceland. Responsible for working with both existing and new clients within the industry they provide vital sales and service in the same language and time zone.

In July 2016, we announced the availability of a release creation tool for Play MPE®. This tool significantly reduces the time required for creating a release, making it easier for full-service Play MPE® customers to load their assets into the system and define the promotional content of their release. The new service also adds more detailed access to release history for full-service labels and promoters using the Play MPE® system.

Play MPE® staff regularly attend various industry conferences including:

September 2015	Christian Music Broadcasters Momentum 2015, Lake Buena Vista, FL
October 2015	CMJ Week, New York, NY
January 2016	Country Radio Seminar, Nashville, TN
April 2016	Momentum Summit, Nashville, TN
May 2016	Non COMM Conference, Philadelphia, PA
August 2016	FMQB Triple A Convention, Boulder, CO

Clipstream®

In October 2015, we announced the roll out of a fall release of the Clipstream including new features and back-end improvements for the cloud product, the introduction of technology for the advertising industry, and a new player API allowing third parties to build Clipstream® into their own offerings. An encoding API to further advance third party integration is in development. Since the previous release, a major focus on improving proprietary server management logic resulted in a 300% reduction in encoding operating costs while increasing customer satisfaction through responsiveness.

In October 2016, we announced that the latest generation of the compression engine powering the Clipstream® platform. The new compression engine, based on the HEVC standard, reduced bandwidth usage for the Clipstream® platform by over 62% and increased the highest resolution delivered by 78%. The video industry began work on HEVC, also known as H.265, as early as 2004 to replace H.264 and deliver higher quality video at lower bandwidth; however, the standard struggles to gain traction in the industry due to slow adoption by web browsers. Clipstream s proprietary JavaScript playback overcomes this limitation and delivers the latest compression technologies to any browser without requiring special plug-ins or changes from browser developers.

Other improvements announced in October a new project organization that enables quick sorting of hosted videos into different projects to streamline organization and management for customers with thousands of videos. Also included in project organization was a new feature to apply the same settings across all videos within a project and by default, greatly increasing video workflow efficiency to get videos live to viewers as quickly and securely as possible. In addition to the new compression engine and project organization we also announced Clipstream® HD Audio support to provide audio with twice the sample rate of competing options and allow the playback of videos with higher than CD quality audio, a first in the online video platform industry.

Significant Customers

During the year ended August 31, 2016, we generated 42% of total revenue from one customer (2015 - one customer represented 45%).

OUR BUSINESS OPERATIONS

We lease approximately 9,106 square feet of office space, with the lease expiring in June of 2017, and we currently have 23 total employees, including 22 full time employees and 1 part time employee. Our employees include our President and Chief Executive Officer, Chief Financial Officer, two finance personnel, ten sales and technical support personnel, and eight software developers. We also employ contractors as needed.

In fiscal 2014, the Company began running many Clipstream® services on cloud systems owned by Google and Amazon. Because these services run on the latest hardware, are able to use non-standard networking and storage hardware for speed within the facility and because they are managed by dedicated experts in the hosting field, it was found that the Company could enjoy better performance, security, reliability and lower costs.

In 2015, the Company secured the expertise of an Amazon Web Services (AWS) consulting partner and entered into a series of significant phased contracts to plan new architecture to move Company server services to AWS while maintaining the highest level of security, automation, performance, data warehousing and compliance. Because of the nearly unlimited number of processing and storage servers around the world, it became possible for the Company to re-engineer critical proprietary server processes to become highly parallel and much faster and more reliable, while significantly reducing hardware costs.

As of the end of fiscal 2015, all Clipstream® services were moved to AWS. In early 2016, the Company migrated all MPE® services to AWS and is currently completing the closure of most remaining co-located facilities.

This new outsourcing to AWS allows both Clipstream® and MPE® to scale rapidly as customer demand requires it, but then to automatically scale back in real time as demand reduces, matching costs closely to actual transactional usage and revenues

Research and Development

Total research and development expenditures for the year ended August 31, 2016 were $1,292,996 (2015: $1,376,386).

COMPETITION

Play MPE®

Play MPE® has regional competitors with limited global presence and limited functionality while Play MPE® has major label use globally. A network effect entrenches the system, as it is difficult for any single user to switch to an alternative without the entire industry switching. The system was built to facilitate sharing of assets and content with regional subsidiaries and affiliates of our major label customers. This allows local representatives to localize the release resulting in costs savings and efficiencies not available in competing solutions. The player software is available in 27 languages.

Play MPE® has several advantages over physical distribution (mail, courier or hand delivery) of manufactured CD s. Digital distribution through Play MPE® is faster, less expensive, more reliable, more secure, provides additional real time and more accurate reporting of usage, provides a great deal of added functionality and provides the error free and automatic transmission of metadata . Metadata includes International Standard Recording Codes (ISRC) which is a standard code for uniquely identifying sound recordings and music video recordings - song and artist names, beats per minute, release and impact dates, etc. The automatic transmission of this metadata reduces the time required for manual data entry into radio automation software on the receiving side and eliminates inaccuracies in royalty reporting. This benefits labels who want to be in third party databases as the transmission of this data is immediate and reliable.

The Play MPE® system provides our clients with a sophisticated content management tool that includes privilege control, release sharing amongst global territories (saving our clients time and money when conducting global distributions), enhanced email notification and promotions tools, social media announcements, recipient player apps (iPhone, iPad, Android, Android Tablet and Blackberry), with a fully redundant high speed infrastructure that is more sophisticated and has higher functionality than quickly developed lower cost alternatives. The Company expects that competition will be strongest where audio quality, security, recipient network, and reporting are not as important as cost.

Clipstream®

The online video platform market is relatively crowded with at least three dozen large competitors in North America alone. It is a growing market with strong margins, recurring revenues and sticky customers. Competitors include Youtube, Vimeo, Kaltura, Brightcove, Ooyala, and many others.

To address this market, we are using our expertise in security and high volume hosting, where reliability is important, to build out world-class back end infrastructure. This infrastructure is implemented has a software layer on top of Amazon's AWS server network, creating a partially proprietary distribution network based on their hardware.

In addition to the back-end infrastructure, we are building out features to better fit additional customer workflows and adding support for standards based codec solutions in addition to our proprietary JavaScript codec solution. Our strategic goal is to be a best of breed provider in the OVP industry across a variety of verticals.

Additional differentiation from competition will come from our JavaScript codec engine based on the HEVC standard. As a software solution, we are able to offer new video compression techniques, such as parts of the next generation HEVC standard, that cannot be supported elsewhere. Beyond compression techniques, other online video distribution features like increased security, more flexible playback, future proofing ensuring videos can play back without re-encoding in the future - and custom requests from customers can be more easily implemented. Customer driven custom features can be developed and rolled out instantly cross platform as the software requires only standard HTML support from the browser. For example, we have built in support for a 96 KHz audio sampling rate which is much higher fidelity than CD's 44.1 KHz, this allows us to offer a unique competitive differentiation to music industry customers.

The newest generation of the JavaScript codec was launched on October 4, 2016 and is commercially available as part of the OVP, but is not being marketed yet as memory, CPU and timing issues on resource limited devices are being addressed.

GOVERNMENT REGULATION

We are not currently subject to direct regulation by any governmental agency other than laws and regulations generally applicable to businesses. It is possible that a number of laws and regulations may be adopted in both the United States and Canada with particular applicability to the Internet. Governments have and may continue to enact legislation applicable to us in areas such as content distribution, performance and copying, other copyright issues, network security, encryption, the use of key escrow data, privacy protection, caching of content by server products, electronic authentication or digital signatures, illegal or obscene content, access charges and retransmission activities. The applicability to the Internet of existing laws governing issues such as property ownership, content, taxation, defamation and personal privacy is also uncertain. Export or import restrictions, new legislation or regulation or governmental enforcement of existing regulations may limit the growth of the Internet, increase our costs of doing business or increase its legal exposure.

The Company owns proprietary algorithms, source code, web domain addresses, patents, trademarks and other intellectual property.

Patents

1. Digital Locking "Digital Media Distribution Method and System" (US Patent No. 7466823)

This patent provides a method of locking digital content which prevents play back on unauthorized machines and devices. Claims include separating security from the content, so that content files can be shared securely over peer to peer networks. This is one of the earliest patents for securing peer to peer distributed content.

One of the more important claims in this patent is the ability to uniquely recognize a particular computer. Uniquely identifying a person s computer is a common issue which is usually approached by saving cookies or beacons to the user s computer or by tracking IP addresses. These are not reliable solutions as cookies are easily deleted and IP addresses easily changed. Destiny s propriety hash code process creates a serial number that can be used to recognize the user on subsequent visits without ever saving anything to that user s computer.

2. Watermarking "Methods for Watermarking Media Data"

a. US Patents No. 7983441,8300885, 9165560
b. US pending application No. 14/857716
c. Japan Patent No. 5103479
d. Canada patent No. 2682926
e. Europe Patent No. 2082527 (which has now been granted in Switzerland, the UK, the Netherlands, France, Sweden, and Denmark under No. 2082527 and in Germany under DE602007038680.2)

We have a developed a watermarking technology which can uniquely identify the individual who originally accessed a particular song. Our watermark is unique as it can be embedded and identified rapidly, it is inaudible, it survives on air broadcast, compression and conversion to other formats and is virtually impossible to remove. Our watermarking technology is used in the Play MPE® distribution system when songs are exported or when streaming a track. Other watermarking technologies are slow and provide a trade-off between a destruction of audio quality and the ease that they can be filtered out. When the original patent claims were granted in the US, the Company filed a set of new additional, broader claims in a continuation application in Canada and the US to further protect the technology.

3. Cross Platform Streaming Video Script Based Video Rendering

a. US Patents No. 9143826, 9137567, 9215499, 9380338, 9432726 and 9432727
b. South Africa Patent No. 2014/01618d
c. Singapore Patent No. 2014008775
d. Pending US application No. 13/517574 (publication No. US-2013-0044823)
e. Pending Canadian patent application No. 2843766
f. Pending China (Publication No. CN 103891303/Application No. 201280050754.7)
g. Pending Europe (Publication No. 2745526/Application No. 12824114.8)
h. Pending Japan (Application No. 2014-525268)
i. Pending Australia (Application No. 2012297524)
j. Pending India (Application No. 1961/DELNO/2014)
k. Pending Israel (Publication No. WO2013/023287/Application No. 230898)
l. Pending New Zealand (Application No. 622065)
m. Pending Russian Federation (Application No. 2014110047)
n. Pending Hong Kong (Application No. 14112896.4)
o. Pending Cooperation Treaty (Application No. PCT/CA2012/05034)

This solution enables publishers to serve streaming video from their web site without the need for a separate streaming server. The solution will play instantly in all recent browsers, including mobile devices, without the need for a separate video player.

Registered Trademarks

Clipstream®
Granted: USA, Canada, Japan, Israel, European Community, China and Australia

Play MPE®
Granted: USA, Canada, Japan, European Community, China and Australia

MPE®
Granted: USA, Canada, Japan, European Community
Pending: Australia

Sonox Digital®
Granted: Japan, China, European Community, Canada
Published: USA

Domain Names

We own a large number of domain names, including many valuable four letter domain names (dice.net, dsny.com) and URL s featuring common words (radio-play.com, streamingaudio.com, pirateradio.com and many others.)

ITEM 1A. RISK FACTORS.

We face risks in executing our business plan and achieving revenues. The following risks are material risks that we face. We also face the risks identified elsewhere in this Annual Report, including those risks identified under Item 1. Business , including Competition and Government Regulation, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations . If any of these risks occur, our business and our operating results and financial condition could be seriously harmed.

If revenues decline, then our financial condition and results of operations will be adversely affected.

98% of our revenue is generated from our Play MPE® distribution service. Competitors may arise and/or customers may not renew distribution contracts. This factor could cause our revenue to decrease with the result that our financial condition and operating results would be adversely affected. Competitors have been small, regionally based, have limited resources, and have yet to capture a material share of the market. If a competitor were to develop a comparable or superior product, our market share could be reduced.

If we are not able to control our operating expenses, then our financial condition may be adversely affected.

Operating expenses were $3,547,196 for the year ended August 31, 2016 and $4,120,550 for the year ended August 31, 2015 while our revenue was $3,337,813 for the year ended August 31, 2016 and $3,323,537 for the year ended August 31, 2015. Our ability to achieve profitability is conditional upon our ability to control our operating expenses. There is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

If we are not successful in legal proceedings against us, then our business and financial condition could be adversely affected.

We are currently party to a claim against the Company, as described in Item 3. Legal Proceedings . If we are not successful in this legal proceeding and are forced to make payments of damages to the plaintiffs, then our business and our financial condition would be adversely affected.

Our success is dependent, to a large degree, upon the efforts of Mr. Steve Vestergaard, our current executive officer.

Mr. Vestergaard was the founder of Destiny Software and has been involved in our business operations since our inception. The loss or unavailability of Mr. Vestergaard could have an adverse effect on our business operations and financial condition. We do not maintain key man life insurance policies for Mr. Vestergaard or for any of our other employees. In addition, our continued success is dependent upon our ability to attract and retain qualified personnel in all areas of our business, especially management positions. In the event that we are unable to attract and retain qualified personnel, our business would be adversely affected.

Our financial results may be adversely impacted by currency fluctuations.

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. An increase in the value of the Canadian dollar in relation to the United States dollar and/or Euro could have the effect of increasing our loss from operations. We do not currently hedge our foreign currency exposures.

If our products are defective or contain errors, we may become subject to product liability claims.

As a result of their complexity, our software products may contain undetected errors or failures when first introduced or as new versions are released. There can be no assurance that, despite testing we undertake and testing and use by current and potential customers, errors will not be found in new products after commencement of commercial shipments. The occurrence of such errors could result in loss of or delay in market acceptance of our products, which could have a material adverse effect on our business, financial condition and results of operations. Our products also may be vulnerable to break-ins and similar disruptive problems caused by Internet or other users.

Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through the computer systems of our customers, which may result in significant liability to us and deter potential customers. The sale and support of our products may entail the risk of liability claims. A product liability claim brought against us could have a material adverse effect on our business, financial condition and results of operations.

Our ability to manage growth.

Should we be successful in the sales and marketing efforts of our software products, we will experience significant growth in operations. If this occurs, management anticipates that additional expansion will be required in order to continue our product development. Any expansion of our business would place further demands on our management, operational capacity and financial resources. We anticipate that we may need to recruit qualified personnel in all areas of its operations, including management, sales, marketing, delivery, and software development. There can be no assurance that we will be effective in attracting and retaining additional qualified personnel, expanding its operational capacity or otherwise managing growth. In addition, there can be no assurance that our current systems, procedures or controls will be adequate to support any expansion of our operations. The failure to manage growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Risk of system failure and/or security risks.

Despite the implementation of security measures, our network infrastructure could be vulnerable to unforeseen computer problems. Although we believe we have taken steps to mitigate much of the risk, we may in the future experience interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others. Unknown security risks may result in liability to us and also may deter new customers from purchasing our software and services, and individuals from utilizing it. Although we intend to continue to implement and establish security measures, there can be no assurance that measures implemented by us will not be circumvented in the future, which could have a material adverse effect on our business, financial condition or results of operations.

Lack of established market for products and services; dependence on internet and intranets as mediums of commerce and communications.

The market for our streaming media products and services is new and evolving rapidly. It depends on increased use of the Internet and intranets. If the Internet and intranets are not adopted as methods for commerce and communications, or if the adoption rate slows, the market for our products and services may not grow, or may develop more slowly than expected.

The electronic commerce market is relatively new and evolving. Sales of our products depend in large part on the development of the Internet as a viable commercial marketplace. There are now substantially more users and much more traffic over the Internet than ever before, use of the Internet is growing faster than anticipated, and the technological infrastructure of the Internet may be unable to support the demands placed on it by continued growth. Delays in development or adoption of new technological standards and protocols, or increased government regulation, could also affect Internet use. In addition, issues related to use of the Internet and intranets, such as security, reliability, cost, ease of use and quality of service, remain unresolved and may affect the amount of business that is conducted over the Internet and intranets.

Product delays and errors.

We have experienced development delays and cost overruns associated with its product development. We may encounter such problems in the future. Delays and cost overruns could affect our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements. Our products also may contain undetected errors that could cause adverse publicity, reduced market acceptance of the products, or lawsuits by customers.

Online commerce security risks.

Online commerce and communications depend on the ability to transmit confidential information securely over public networks. Any compromise of our ability to transmit confidential information securely, and costs associated with the prevention or elimination of such problems, could have a material adverse effect on our business.

International operations.

We market and sell our products in the United States, Canada, Europe, Asia, South America, Africa and Australia. As such, we are subject to the normal risks of doing business abroad. Risks include unexpected changes in regulatory requirements, export and import restrictions, tariffs and trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, potential adverse tax consequences, exchange rate fluctuations, increased risks of piracy, limits on the our ability to enforce our intellectual property rights, discontinuity of our infrastructures, limitations on fund transfers and other legal and political risks. Such limitations and interruptions could have a material adverse effect on our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES.

Our head office is located in leased premises at Suite 1110, 885 Georgia Street, Vancouver, British Columbia, Canada V6C 3E8. Our principal business operations are carried out from our head office. Our leased premises consist of approximately 9,106 square feet. We pay rent of approximately $29,367 Canadian (equal to approximately $22,154 US) per month. The lease expires June 29, 2017. We consider our leased premises adequate for our current business purposes.

ITEM 3. 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 R. A. Bruce McDonald, for damages arising from a proposed private placement in 2000 that did not close.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our shares are currently trading on the OTCQB under the stock symbol DSNY. The first day on which the Company s shares were traded under the stock symbol DSNY on the OTC Bulletin Board was June 26, 2000. On August 18, 2011, Destiny Media began trading on OTCQX. The high and the low trading prices for our shares for each quarter of the last two fiscal years were:

QUARTER	HIGH ($)	LOW ($)
1st Quarter 2015	$0.78	$0.40
2nd Quarter 2015	$0.49	$0.28
3rd Quarter 2015	$0.76	$0.25
4th Quarter 2015	$0.40	$0.15
1st Quarter 2016	$0.50	$0.15
2nd Quarter 2016	$0.26	$0.17
3rd Quarter 2016	$0.34	$0.15
4th Quarter 2016	$0.30	$0.16

The trades reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Our shares have traded on the TSX Venture Exchange under the symbol DSY since October 12, 2010.

Holders of Common Stock

As of November 28, 2016 our shareholders list for our common stock showed 60 registered shareholders and 55,013,874 shares of our common stock outstanding.

Dividends

We have neither declared nor paid any cash dividends on our capital stock and do not anticipate paying cash dividends in the foreseeable future. Our current policy is to retain any earnings in order to finance the expansion of our operations. Our Board of Directors will determine future declaration and payment of dividends, if any, in light of the then-current conditions they deem relevant and in accordance with applicable corporate law.

Recent Sales of Unregistered Securities

None.

OTHER INFORMATION

None.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for a description of our securities authorized for issuance under equity compensation plans.

ITEM 6. SELECTED FINANCIAL DATA.

(Expressed in US dollars)		2016		2015		Fiscal Year 2014		2013		2012
Continuing Operations:										
Service revenue	$	3,337,813	$	3,323,537	$	3,572,376	$	3,679,029	$	3,983,789
Income(loss) from operations	$	(209,383)	$	(797,013)	$	(368,783)	$	235,879	$	719,678
Net income (loss)	$	(188,251)	$	(1,596,646)	$	(324,399)	$	226,014	$	563,003
Net income (loss) per common share, basic and diluted	$	(0.00)	$	(0.03)	$	(0.01)	$	0.00	$	0.01
Balance Sheet:										
Working capital	$	1,125,289	$	513,472	$	1,476,767	$	1,842,538	$	1,641,032
Total assets	$	1,850,876	$	1,537,190	$	3,401,206	$	3,657,656	$	3,793,002
Long-term liabilities		6,472		12,071		-		-		-
Stockholders equity	$	1,488,405	$	1,102,434	$	3,002,647	$	3,283,007	$	3,280,935

The selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our results of operations and financial condition should be read together with the consolidated financial statements and related notes that are included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors.

RESULTS OF OPERATIONS FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

Revenue

Total revenue for the year ended August 31, 2016 increased by 0.5% over the same period in the prior year to $3,337,813 (2014 $3,323,537). The increase was due to an increase in Clipstream® revenue while Play MPE® revenue remained consistent with the prior year. Play MPE® experienced growth in United States independent label revenue throughout the year, while growth in European independent label revenue occurred in the last quarter with the addition of recipient lists in Norway and Sweden and the addition of resellers in northern Europe. Growth in Play MPE® revenue was offset by a decline in major label revenue in the US and unfavorable exchange rates.

Approximately 50% of our Play MPE® revenue is denominated in Euros, 42% is denominated in US Dollars and 8% is denominated in Australia Dollars for the year ended August 31, 2016.

Approximately 2% of our revenues are derived from sales of our Clipstream® software. Our management is focused on increasing sales, marketing and support resources on our new Clipstream® generation to increase revenue.

Operating Expenses

Overview

As our technologies and products are developed and maintained in-house, the majority of our expenditures are on salaries and wages and associated expenses; office space, supplies and benefits. 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 the Canadian dollar to these currencies.

During the year ended August 31, 2016, while exchange rates resulted in adverse impacts to overall revenue, the strengthening of the US dollar relative to the Canadian dollar resulted in a favorable impact on costs. The Company maintains most of its financial reserves in Canadian dollars to mitigate the downside risk of adverse exchange rates.

Overall costs dropped by 13.9% to $3,547,196 (2015 $4,120,550) during the year ended August 31, 2016. The decline is result of favorable exchange rates, reduced staffing costs with a reduction in executive salaries and wages, recruiting and retrenchment costs, and a reduction in spending on public company expenditures. These savings are partially offset by a 105% increase in marketing costs, an 83% increase in technology related costs with our continued transition to outsourcing infrastructure costs, and an increase in development operating costs associated with subcontracting our infrastructure.

General and administrative	**31-Aug 2016** (12 months) $	**31-Aug 2015** (12 months) $	**$ Change**	**% Change**
Wages and benefits	358,424	611,373	(252,949)	(41.4%)
Rent	34,751	47,052	(12,301)	(26.1%)
Telecommunications	43,883	26,237	17,646	67.3%
Bad debt	3,052	1,659	1,393	84.0%
Office and miscellaneous	243,160	296,225	(53,065)	(17.9%)
Professional fees	119,163	136,922	(17,759)	(13.0%)
	802,433	1,119,468	(317,035)	(28.3%)

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

The decrease in wages and benefits is attributable to a reduction in director and officer compensation and a reduction caused by the devaluation of the Canadian dollar relative to the US dollar. The decrease in office and miscellaneous expenses is due to the termination of shareholder relations consulting agreements and related expenditures. The decrease in rent is due a reduction of one-time costs associated with the change in office lease in the comparative period.

Sales and marketing	**31-Aug 2016** (12 months) $	**31-Aug 2015** (12 months) $	**$ Change**	**% Change**
Wages and benefits	862,611	1,067,831	(205,220)	(19.2%)
Rent	89,225	110,100	(20,875)	(19.0%)
Telecommunications	112,669	61,395	51,274	83.5%
Travel	32,967	51,080	(18,113)	(35.5%)
Advertising and marketing	162,912	151,427	11,485	7.6%
	1,260,384	1,441,833	(181,449)	(12.6%)

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The decrease in wages and benefits is mostly attributable to exchange rate fluctuations, a reduction in termination costs, as well as a small decrease in personnel during the year. The increase in telecommunications expense is attributable to increased costs related to Amazon Web Services incurred to build a strong IT infrastructure platform. The increase in advertising and marketing expenses is related to an increased focus on online advertising of Clipstream® and Play MPE® during the first half of the year, to gain increased online exposure internationally.

Research and development	**31-Aug 2016** (12 months) $	**31-Aug 2015** (12 months) $	**$ Change**	**% Change**
Wages and benefits	940,982	1,158,311	(217,329)	(18.8%)
Rent	98,311	132,765	(34,454)	(26.0%)
Telecommunications	124,144	74,033	50,111	6.7%
Research and development	129,559	11,277	118,282	1,048.9%
	1,292,996	1,376,386	(83,390)	(6.1%)

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 attributable to exchange rate fluctuations, a reduction in termination costs, as well as a small decrease in personnel during the year. The increase in telecommunications expense is attributable to increased costs related to Amazon Web Services incurred to build a stronger IT infrastructure platform. The decrease in rent is due to decrease rent expenses in the current period as a result of on time costs associated with the change in office lease in the comparative period. The increase in research and development costs is attributable to testing and consultation associated with testing the quality and functionality of new Clipstream® applications and Play MPE®.

Depreciation and Amortization

Depreciation and amortization expense arose from fixed assets and other assets. Depreciation and amortization increased to $191,383 for the fiscal year ended August 31, 2016 from $182,863 for the fiscal year ended August 31, 2015, an increase of $8,520 or 4.7% .

Other earnings and expenses

Interest income decreased to $21,132 for the year ended August 31, 2016 from $42,787 for the year ended August 31, 2015, a decrease of $21,655. 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, as well as foreign currency exchange fluctuations.

Income Taxes

During the year ended August 31, 2016 the Company recorded income tax expense of $Nil (August 31, 2015 - $842,000) to reduce our deferred tax assets. The decrease in deferred income tax expense is associated with the derecognition of deferred tax assets during the year ended August 31, 2015, as a result of the Company s net losses. The Company currently pays no current income tax as a result of realizing no taxable income.

Net Loss

During the year ended August 31, 2016, loss from operations decreased by 74% to $209,383 (August 31, 2015 - $797,013). Net loss decreased by 88% to $188,251 (August 31, 2015 - $1,596,646). The decrease in net loss is primarily due to decreased operating costs related to a reduction in staffing costs, a reduction in spending on public company expenditures and a decrease in deferred income tax expense as a result of recognizing a valuation allowance against deferred tax assets in the comparative period.

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, these stock-based compensation expenses do not result in cash payments by the Company. Adjusted EBITDA has limitations as a profitability measure in that it does not include interest expense on our debt, our provisions for income taxes and amortization, the effect of deferred leasehold inducement, the effect of non-cash stock-based compensation expense and the effect of asset impairment.

The following is a reconciliation of net income from operations to Adjusted EBITDA:

		31-Aug 2016		**31-Aug 2015**
Net loss	$	(188,251)	$	(1,596,646)
Interest income and expenses		(21,132)		(42,787)
Deferred income tax expense		-		842,000
Depreciation and amortization		191,383		182,863
Stock based compensation		49,608		60,807
Deferred leasehold inducement		(34,255)		69,244
Adjusted EBITDA	$	(2,647)	$	(484,519)

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $662,743 as at August 31, 2016 compared to cash of $387,316 as at August 31, 2015. We had working capital of $1,125,289 as at August 31, 2016 compared to $513,472 as at August 31, 2015. The increase in our working capital was due to a decrease in our net loss, offset by an increase in accounts receivable and a decrease in accounts payable, and from proceeds from a private placement completed in October, 2015.

We had $640,456 in cash held outside o