

Raystream Inc.
Form 10-K
August 03, 2012

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: **April 30, 2012**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 333-167084

RAYSTREAM INC.

(Exact name of Registrant as specified in its charter)

Nevada

7374

27-2310076

(state or other jurisdiction of incorporation or organization)

(Primary Standard Industrial Classification Code)

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

2101 Midway Road, Suite 140

Carrollton, Texas 75006

Telephone: (972) 980-7206

(Address and telephone number of Registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes 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 shorter period that the registrant as required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes No

Aggregate market value of the voting and non-voting stock of the registrant held by non-affiliates of the registrant as of **October 31, 2011: \$55,194,750.00** (Non-affiliate holdings of 24,975,000 common shares, closing price of \$2.21).

As of August 1, 2012, the registrant had 49,975,000 shares of common stock issued and outstanding.

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this prospectus and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, express or implied, of our annual growth, operating results, future earnings, plans and objectives, contain forward-looking statements. In some cases, you can identify such forward-looking statements by words such as estimate, project, intend, forecast, future, anticipate, plan, target, planning, positioned, continue, expect, believe, will, will likely, should, could, would, such terms and other comparable terminology that are not statements of historical fact. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Risk Factors beginning on page 9 and elsewhere in this prospectus and in our other public filings with the Securities and Exchange Commission (the SEC). It is routine for internal projections and expectations to change as the year or each quarter of the year progresses, and therefore it should be clearly understood that all forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this prospectus or other periodic reports are made only as of the date made and may change. We do not undertake any obligation to update or publicly release the result of any revision to these forward-looking statements to reflect events or circumstances occurring after the date they are made or to reflect the occurrence of unanticipated events.

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PART I

ITEM 1. Industry and Business

General

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Raystream Inc. (Raystream , us , we or the Company) was incorporated in the State of Nevada on December 8, 2009 under the name Interdom, Corp. On August 22, 2011, we changed our name to Raystream Inc. Our executive offices are located at 2101 Midway Road, Suite 140, Carrollton, Texas 75006. Our common stock currently trades under the ticker symbol RAYS.

We are in the business of licensing software to compress high definition (HD) video transmissions to other businesses. Management believes that the market for the Company s products will include any organization that works with streaming video or that would benefit from more efficient use of bandwidth. As online HD video and Internet-to-TV HD video usage grows, the market for our products will expand since the compression of the signals allows more efficient use of bandwidth.

The Industry

As is demonstrated by the following table, online (Internet) video usage is expected to be the fastest growing market sub segment on the Internet in the next few years and currently it is still in the emerging stage of its marketing lifecycle.

INTERNET TRAFFIC BY SUB SEGMENT (petabytes per month)

Sub Segment	2009	2010	2011	2012	2013	2014	Compound Growth
File Sharing							4,091
							5,075
							6,197
							7,492
							9,125
							11,340
							23%
Internet Video							2,778
							4,725
							7,718

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11,026

14,838

19,468

48%

Internet
Video to Tv

107

263

711

1,502

2,686

4,075

107%

Web/Data

1,688

2,273

3,006

3,930

4,933

6,134

29%

Video
Calling

83

128

199

284

407

599

48%

Online
Gaming

63

86

120

167

226

307

37%

VoIP

122

134

141

144

145

146

4%

Source
Cisco VNI,
2010

Online video cuts across almost every horizontal and vertical market. Fierce competition will occur in an effort to capture viewers. New applications with new business models will rapidly displace older, less attractive, or failed solutions.

Enablers of online video, such as compression and encoding/transcoding platforms, online video platforms, and video distribution will most likely experience less competitive pressures since their market is not limited by any single

horizontal or vertical application (much like Cisco's positioning during the early years of the Internet).

Increasing video demand and sheer volume of videos will place a premium on storage and distribution costs. The need to increase distribution capacity will require significant capital expenditures. Increasing the reach of distributed videos (e.g. distributing HD video over commercial Internet connections) will provide a competitive advantage over less capable content distribution networks. The Raystream encoding and transcoding platforms address each of these future trends by decreasing the size of the video as natural result of its robust service, which lowers distribution bandwidth requirements, enabling HD video to be distributed over normal Internet connections.

Not only will the market grow from increased applications of video by existing Internet users, but continuing increases in Internet usage will also impact the market. The following table summarizes worldwide Internet usage:

Region	Population (2010 est.)	Internet Users (est.)	Users as a % of Population
Africa	1,013,779,050	110,931,700	10.9%
Asia	3,834,792,852	285,094,396	21.5%
Europe	813,319,511	475,069,421	29.1%
East	212,336,924	63,240,946	29.8%
North America	344,124,450	266,224,500	77.4%
Latin American/Caribbean	592,556,972	204,689,836	34.5%
Ocenia/Australia	34,700,201	21,263,990	61.3%
Totals			

Source: www.internetworldstats.com. Copyright 2000-2010, Miniwatts Marketing Group

With only 28.7% of the world's population having been penetrated, there are few restrictions that will impact continued growth over the next decade. Nonetheless, the following market drivers and inhibitors listed in order of impact will determine just how much future growth will be realized.

Online Video Market Drivers:

.

Internet usage as a percent of population

.

Social Sites usage as a percent of Internet and mobile users

.

Online advertising expenditures

.

Internet and Mobile Infrastructure speed (MB/sec)

.

The reach of High definition video content to Internet and mobile users

.
Consumer online/mobile expenditures

.
Portability (compatibility) across platforms (PC, TV, Smart Phone, etc.)

.
Application convergence on user platforms

The number of business and individual Internet users is the most influential market driver since users are the end-point of all Internet applications. Social Sites continue to be a significant driver for online video but its influence may decline over the next five years due to possible saturation of subscribers as seen recently with the decline of growth on Facebook. Advertisers and Marketing Agencies have a direct impact on video usage now that more than 50% of all advertisers use video. Since advertising expenditures are expected to increase significantly, the demand for video encoding, transcoding and distribution will also increase. HD and 3D content is both a driver and an inhibitor to online video growth. As existing content becomes available (copyrights and royalty rights permitting) and as new content is created, distribution on the Internet will also increase. To the extent HD and 3D content is not produced, it becomes an inhibitor to growth, particularly the lack of long format video. The remaining three drivers, consumer expenditures, platform/screen portability, and platform application convergence are inextricably related market drivers.

Online Video Market Inhibitors:

.
Limited connection speeds for Internet backbone, Internet access and Mobile Infrastructures

.
Stagnant bandwidth per minute of video

.
Availability of HD and 3D content sourcing

.
Video copyright terms and conditions, bundling and unbundling

.
Illegal downloads; other fraudulent concerns

.
Limited advancement of conversion and streaming technologies

Multiple monetizing Business Models (Ownership vs. Pay-Per-View vs. Subscription, etc.)

The online video industry is still evolving. With regard to online video growth, the Internet speed (both backbone and user connectivity) are heavy inhibitors. Without massive investments into infrastructure and networking (e.g. Verizon FIOS), higher speeds are unlikely to become the norm for most users and little progress has been made on compression and streaming technologies for high resolution videos. Cisco's forecasts did take into consideration the Internet's average connection speed as a video growth factor; however, expected improvements are almost negligible over the next five years. Cisco did not consider any compression improvements in its forecasting. (Raystream is the industry exception.)

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Raystream's Market

Any company creating, capturing, distributing and/or delivering video for any application is a potential customer for Raystream encoding and transcoding services. Horizontal markets can best be defined by primary video function such as content creation, management, delivery, and streaming.

The two prime Raystream horizontal markets are Content Delivery and Streaming Delivery which are heavily dependent on, and therefore can benefit the most from, the advantages of Raystream's service platforms.

Most vertical markets utilize all of the above cited horizontal video functions albeit at different levels of deployment. Raystream's prime vertical markets, and companies within those vertical markets, were identified based on the heavy use of video functions that 1) maximize the deliverable benefits of Raystream's three conversion platforms and 2) maximize the client's justifiable ROI.

The top ten Vertical markets selected as prime Raystream targets based on maximizing a client's justifiable ROI using Raystream's services, are Education, Healthcare, Financial services, Advertising, Energy, IT Services, Government, Telecommunications, Surveillance/Security and Manufacturing.

Overview of Raystream

Raystream, Inc. is an encoding and transcoding service and technology company, headquartered in Carrollton, Texas just north of downtown Dallas.

Video compression is the process of using modern coding techniques to reduce redundancy in video data for conversion into a digital data stream for transmission over the Internet, satellite, cable or wireless networks. We have developed and provide advanced video compression service platforms that facilitate and accelerate encoding and transcoding of virtually all Standard Definition (SD) and High Definition (HD) video (240p, 480p, 720p and 1080p), simplifying media conversion for multi-format, multi-device video workflow environments incorporating our Trade Secret optimization techniques.

Our platforms typically generate benefits of streamlined video content management, decreased storage and bandwidth requirements, accelerated computational intensive image processing and enhanced content distribution and delivery over standard Cable and DSL Internet connections and into bandwidth limited markets.

Compression ratios of raw HD content typically achieved using our platforms can exceed 90%, dramatically reducing

both the file size and bandwidth requirement of online video delivery. This enables HD quality content delivery over widely available commercial last mile connections but also allows HD video to be distributed and stored at a significant cost savings.

In the summer of 2012 we will release Raystream version 1.0, which is currently being deployed in strategic major account sites and labs on selected platforms in a proof of concept evaluation model. With this latest release we will be positioned to begin executing our strategic and tactical sales and marketing initiatives and bringing our existing evaluation and development partners to final contract stage.

We have already begun, and will continue to make sales presentations and respond to requests for proposals at large telecoms, cable companies, broadcasting companies, advertising companies, universities, healthcare companies and content generation, distribution and delivery companies and more as identified in our improved sales and marketing plans.

Raystream Employees

As of July 1, 2012, we employed a total of 11 people, including 4 in research and development, 2 in sales, 1 in operations, 1 in marketing and 3 in a general and administrative capacity. All employees are located at our headquarters location in Carrollton, Texas. We also employ a number of consultants on a contract basis including 2 full-time engineers and 2 part-time sales consultants.

We have not experienced any work stoppages, and we consider our relations with our employees to be good. Our future success will depend, in part, upon our ability to attract and retain qualified personnel. Competition for qualified personnel in the video processing industry remains strong, particularly for highly qualified technical personnel, and we cannot assure you that we will be successful in retaining our key employees or that we will be able to attract the key employees or highly qualified technical personnel we may require in the future.

Raystream Technology

In today's multi-format, multi-device video workflow environments, all video being distributed and delivered via the Internet, satellite, cable and mobile networks must be encoded or transcoded (compressed) into a smaller derivative digital stream form using one of a great number of different codecs. MPEG-2, MPEG-4, VP8, WMV and X264 are some of the most commonly used codecs in the market today. As new codecs are developed that have improved functionality and performance over existing market standards, all video content processed with older formats must be updated to capitalize on the benefits the new codec(s) delivers.

Fortunately, our technology is universally codec tolerant, meaning that we have the ability to accept and assimilate any existing and forthcoming codecs into our application library and service platforms, significantly improving the client experience and eliminating the risk of obsolescence. Once integrated, we customize and optimize how the codec performs and functions using specialized coding techniques and improve its output results further with multiple advanced pre and post processing algorithmic functions.

We believe our system represents a disruptive innovation not only in our platform's robust encoding and transcoding capabilities, but also in our custom Graphic Processing Unit ("GPU") coding acceleration technology. While there are competitors currently offering similar performance enhancements with GPU integration, based on our live lab tests we can out-perform their results by a minimum of a factor, opening up the opportunity for Raystream to become the

industry's GPU coding standard, not only for Cloud-based initiatives, but also for onsite hardware implementations of our solutions.

Our GPU enhanced platforms dynamically port compute-intensive tasks for massively parallel processing enabling the simultaneous input of multiple video streams and the subsequent output of even more high quality transcoded derivatives delivering the best image quality in the least amount of time.

The Raystream version 1.0 release empowers our platforms to deliver an intuitive, browser based experience to our customers giving them the ability not only to encode raw HD content, but also transcode those same files or digital streams into multiple alternate formats facilitating content delivery to a multitude of internet connected devices, including PCs, Laptops, Macs, iPhone, iPad, PS3, Xbox, Android devices and other smart phones and DLNA devices (Smart TVs).

In addition to its standard transcoding resources, Version 1.0 is also highly proficient in generating high quality segmented manifest files for video streaming via Apple HTTP Live Streaming (HLS), Microsoft Smooth Streaming, Adobe HTTP Dynamic Streaming and even MPEG-DASH.

Another important distinction that differentiates our system from others in the marketplace is that it can be updated and improved without necessitating a change or upgrade in hardware or physical delivery and manual installation of those updates or improvements. Raystream clients enjoy the peace of mind knowing that the respective Raystream platforms they have deployed in their video workflow environments are always on the cutting-edge of encoding and transcoding technology.

Having a software based video compression system means that new changes in technology, encoding algorithms or GPU code integration can be pushed simultaneously to all Raystream internet connected deployed platforms across the globe with no requirement of manual or custom installation. We believe this is a competitive advantage for us as the lion share of our competitors incorporate OS environments that demand physical delivery and manual installation of updates. Under typical circumstances, by the time an update reaches a client for installation it's already a generation behind. Hence the market advantage Raystream's Real-Time Update capabilities deliver.

RaystreamCLOUD

Our Raystream*CLOUD* service platform combines the scalability, elasticity and flexibility of the cloud with best-in-class video encoding and transcoding technology over the Internet. No on-site hardware is required. Video is uploaded to our cloud infrastructure, processed and then made available for download or syndication to CDN for ultimate delivery to any device. Using the Raystream browser-based Analytics UI, the user can define the output format(s), desired encoding settings (video/audio codec, bitrate, resolution, adaptive formats, (etc.)), track batch queues, and analyze results. Our service is designed to facilitate the integration of Raystream powered cloud resources within existing video workflow environments to expand and enhance transcoding capacity across a variety of implementation scenarios. This proficiency enables premium content providers and aggregators to enhance multi-device video offerings and expand viewing audiences while increasing revenues and greatly reduce capital expenses. Fast, scalable and reliable, Raystream*CLOUD* gives our customers the ability to easily adapt to rapidly evolving and expanding video marketplace.

Our cloud platform services are available on-demand with or without a subscription. Without a subscription, users are

charged by the on-demand minute of processed output video under a Pay-As-You-Go model. Subscriptions are available for discounted volumes stepped at 10,000, 25,000, and 100,000 processed video minutes per month at respectively discounted flat rates. Higher volume subscriptions (>100,000 minutes per month), referred to as Enterprise Class Solutions, are available on a Request-for-Quote basis.

RaystreamSERVER

The RaystreamSERVER service platform is custom-configured for each installation to integrate our file-based video processing system seamlessly within a client's existing video workflow environment. RaystreamSERVER provides dedicated hardware and software resources for fast, high-quality video transcoding for multi-screen video applications and high performance batch encoding of mass content compression projects. Single or multiple output formats can be simultaneously processed in a single pass by harnessing the power of the latest parallel processing GPU architectures, offering greater density and throughput than competing solutions. Media libraries can be reduced by as much as 60% saving storage costs, increasing storage capacity, or a balance of both gains.

Our system delivers up to 10x faster than real-time, synchronized, high quality conversion of multiple HD and SD video streams enabling delivery of that content to a collection of devices including PCs, laptops, tablets, smart phones and TVs. RaystreamSERVER multiplies and accelerates delivery of video content to more devices and compression via GPU parallel processing for targeted delivery to game consoles, set-top boxes, Apple iPhone and iPad, Android devices and Flash and Silverlight players.

The On-site platform includes an intuitive, browser-based Analytics UI Dashboard for quick and simple integration into existing workflows, interfaced to the Raystream video processing hardware to control batch queues, file operations, monitor traffic and track compression results. Further scaling, without limit, can be accomplished by standard rack mounting clusters of multiple RaystreamSERVER units in a shared environment which automatically distributes encoding/transcoding tasks.

RaystreamLIVE

Our RaystreamLIVE service platform is a multi-channel video processing system for live video stream encoding of VOD or live content. It is designed to reliably and continuously encode and process audio and video content in a live, real-time environment. RaystreamLIVE can perform real-time encoding of up to 15 simultaneous channels of Standard Definition content or 8 channels of High Definition content maintaining video/audio synchronization and allows for the creation of multiple adaptive streaming or other outputs equal to the input resolution. Similar to the RaystreamSERVER, RaystreamLIVE can be scaled using rack mounted clusters of the servers as well.

Coupling the benefits of massively parallel hardware with the flexibility of intelligent code enables the delivery of unmatched price/performance for video processing. With extraordinary compression, RaystreamLIVE executes simultaneous, on-the-fly processing and encoding of multiple outputs, delivering the high-quality, high-efficiency performance required in order to stream live video to any device. An intuitive web-based user interface simplifies workflows and provides one-click access to popular content delivery networks for syndication. A single RaystreamLIVE system can perform the work of multiple CPU-only encoders, eliminating configuration complexity, optimizing multi-screen video delivery and reducing total cost of ownership.

Platform Features

Our core technology is ideal for transforming HD content into small high-quality packages for cloud-based initiatives and distribution, file-based production workflows, and feeding multiple live video streams to content distribution networks. In addition to a wealth of supported input and output formats, our system's features include an intuitive user interface with customized profiles, live and batch encoding and transcoding, forensic watermarking, file archiving, and video processing of SDI and Composite inputs including de-interlacing, entropic filtering, cropping and scaling,

dithering and gamma correction, among others.

Raystream Benefits

With Raystream processed video, publishers, distributors, and broadcasters can choose how to realize savings through cost of ownership, cost reduction, cost avoidance, increased reach, increased capacity, or any combination of these benefits to optimize their business model. Clients who pay third parties for storage and content delivery will realize an immediate cost reduction for those services. Clients that have expended capital for storage and delivery can avoid additional capital expenditures while increasing their service capacity. Others may be able to utilize their increased capacity immediately without capital expenditures to increase revenues and profits.

We will continue to further develop, refine and enhance our technology which will give us the ability to expand our market reach and penetration into a variety of different applications across all meaningful verticals.

Commercialization and future applications and improvements of the Raystream technology are expected to require additional development capital, estimated to be approximately \$1.5 million annually. This estimate may increase or decrease depending on specific opportunities and available funding.

Raystream's Sales and Marketing

Sales Strategy

In today's environment, encoding and transcoding purchase decisions are made based upon the technology's effectiveness, ease of use and purchase price or one-time licensing fee. Competitive bids are compared on encoding capabilities and performance. Since competitive compression efficiencies are almost identical from product to product, storage and delivery costs are not major factors in the final purchasing decision.

Our sales strategy is to compete against the client's existing Costs-of-Ownership, and not the one-time costs of acquiring a compression technology. Our pricing is value-based rather than the competition's cost-plus pricing. We will compete by justifying purchase decisions based on the client's future Return-on-Investment versus the client's continued Costs-of-Ownership. Due to our platform efficiencies, client purchasing decisions can no longer ignore the recurring costs of storage and distribution.

Although our *SERVER* and *LIVE* service platforms incur monthly fees, dominant platform capabilities, coupled with storage and delivery savings generated reduce bandwidth requirements which exceed competitive Costs-of-Ownership. Our pricing strategy is to share future net savings derived from our encoding and transcoding platforms with the client. Although we do not intend to enter into performance-based contracts, our platform pricing was set significantly below the projected savings derived from our solutions.

To demonstrate the performance of our platforms, we will offer potential clients a 30-day, on-site Proof-of-Concept (POC) trial period. During the POC, data will be captured and used to determine the client's breakeven volume and Return-On-Investment. The ROI will then be compared to the client's existing compression platform(s) recurring Costs-of-Ownership.

We have developed automated financial analysis tools that accept a client's existing conversion capabilities, storage costs, distribution costs, video volumes, and other cost factors and then calculate the client's Costs-of-Ownership. The financial model also accepts data from the POC and calculates the Raystream Return-on-Investment. The client's current Cost-of-Ownership is then compared to our Return-on-Investment resulting in a highly justifiable purchase decision based on real data from the client's existing system's performance with, and without, Raystream conversions.

Sales Channels

We continuously develop marketing, delivery, and selling partners. Marketing partners, such as telemarketers, consultants, and companies with compatible products, help us develop market awareness and sales leads. Delivery partners include system integrators, consultants, original equipment manufacturers and outsourcing firms. Selling partners include independent representatives, consultants, distributors, and joint venture partners. Both delivery and selling partners are used in our Sales Channels.

Direct Sales: We maintain and manage an in-house sales force consisting of full-time employees compensated on salary, commissions, and incentive/bonus plans. Sales personnel are based in headquarters, major U.S. urban areas and internationally.

Independent Sales: Independent sales personnel are agents, representatives, consultants and other sales personnel that are not dedicated full-time to Raystream. Although not managed by us, Independents work closely with Direct Sales and our management throughout the Sales Process. We use Independents to cover geographic areas where Direct Sales does not maintain a presence.

Distributor Sales: Distributors typically are independent organizations that employ multiple sales and service personnel to fulfill their clients (e.g. Raystream) sales and post-sales service requirements within a specific geographic area. Distributors provide shared sales representation, local service, and management resources which would otherwise be uneconomical for their clients. Distributors and our Direct Sales work together through the Sales Process. Distributors also provide post-sales SLA and account management.

Government Sales: Government sales concentrate on federal, state, and local government agencies. Many sales opportunities exist with prime contractors that manage program implementations funded by government agencies. Although government sales leads may originate from any other sales channel, Direct Sales is responsible for managing all government accounts through the Sales Process.

Value Added Resellers: VARs, such as system integrators, typically provide added value by combining multiple products into a Total Turnkey Solution. Our platforms, combined with media library, video capture, and distribution network equipment that it normally interfaces with can provide VAR systems with a significant improved performance and customer ROI. Direct Sales is responsible for all VAR sales agreements. Distributors may also be used for post-sale services to VAR accounts.

OEM Sales: Original Equipment Manufacturers, particularly those providing added value and total solutions, sell other company's products under their own label by licensing white label rights for products sourced by the owner or by obtaining full manufacturing and labeling rights for their own internal sourcing. Initially, we will seek to source OEM private labeling agreements and possibly convert to licensing manufacturing rights if the OEM arrangement proves successful. Direct Sales is responsible for all OEM contracts.

Online Sales: Online sales focus on acquiring Cloud Platform users, upgrading them to *SERVER* and *LIVE* Platforms and, consequently increasing brand awareness. Online sales result primarily from lead generation campaigns and therefore Marketing has the prime responsibility for online sales with support from Direct Sales.

Marketing Strategy

Marketing's prime responsibility is to generate sales leads in sufficient quantity to fill the sales pipeline and meet or

exceed revenue projections. Marketing's strategy to fulfill this Key-to-Success is to generate leads from our Targeted Vertical Markets - markets which were identified by matching our solution benefits against each vertical market's perceived needs. Healthcare, for example, has risk management and external compliance (e.g. HIPPA) requirements where live video, through massive video capture of training, patient interviews, medical procedures, and the monitoring of other internal processes, can have a significant impact. Video records can prove (or disprove) that correct procedures have been followed to meet compliance requirements as well as establish a record for identifying where improvements are needed.

Marketing will provide sales with industry intelligence, analysis, and sales collateral for each Targeted Vertical Market. Upon penetration into a vertical market, marketing's strategy is to leverage successful case studies into industry-wide brand recognition of Raystream as the premier industry expert. In certain large account developments, marketing may support sales at an account-by-account basis.

A unique aspect of our marketing strategy is that we can leverage our own product to increase the effectiveness of its marketing campaigns. HD video will be used wherever possible in marketing campaigns, significantly enhancing the classic marketing playbook. For example, an embedded or linked full HD short video clip can transform a run-of-the-mill e-Mail into a dynamic and engaging reader experience that also demonstrates the quality playback of our HD video processing. Videos are also an important component of social networking and viral marketing. Our social marketing will not only employ video, but HD video.

Marketing's fulfillment strategy is to utilize economical, out-sourced Information Technology as much as possible. The aggregator of all lead development is our Customer Relationship Management system (CRM) which also acts at the funnel of marketing leads into sales. Sales will assign CRM leads to the appropriate sales channel personnel to be qualified through phone calls, sales calls, and webinars then converted to account targets. The same CRM system will be used to track Targets through the Sales Process.

Third party resources such as HubSpot and Radian6 will be used for inbound marketing, social media monitoring and engagement, search engine optimization, lead generation, lead management, lead nurturing, online campaigns and marketing analytics. HubSpot integrates landing page creation, campaign creation, campaign management, analytics, and search engine optimization into a bi-directional synchronization with our CRM system. Radian6 is a social media monitoring and engagement system that aggregates large volumes of social networking activities based on specific long tail target keywords and phrases into a single interface for live responses. Radian6 can be integrated with Microsoft Dynamics CRM enabling direct download of Radian6 generated social leads.

Marketing continuously seeks partners for lead generation and lead sharing on both a campaign and permanent, ongoing level of involvement. Companies with compatible products (other full-solution system components), consulting firms, compatible product distributors, and shared telemarketing joint marketing programs are examples of potential marketing partners.

Marketing Programs

Our marketing programs emphasize online resources for marketing presence, research, campaign placement, analytics, and management. Offline brand recognition, direct mail, TV/Radio/Newspaper media, and publishing campaigns are de-emphasized, if ever used. Third party marketing platforms, such as HubSpot (online lead generation platform) and Radian6 (enterprise social marketing platform), are utilized to centralize tracking, analytics and management.

Non-Platform campaigns and marketing programs are designed to drive traffic to our website where visitors are picked up by the integrated platforms. By applying landing pages, content management, site testing, visitor tracking, e-Mail follow-up, and lead nurturing, website traffic is converted into leads for marketing to pre-qualify.

Platform Search Engine Optimization (SEO): The HubSpot SEO tool allows us to analyze keywords, increase ranking and calculate search ROI. This tool will improve search rankings and allow us to be found by prospects and quality

leads.

Search Engine Marketing (SEM): We use SEM tools like Google's Adwords and AdSense (and Bing/Yahoo and other equivalent SEMs) to drive additional traffic to our website to be added to our platform lead generation system. SEM advertising may also be used from time to time to attract targeted visitors of specific campaigns to our website for platform lead generation.

Platform Social Media Marketing (SMM): Radian6 is used to centralize our SMM monitoring, active social networking (blogs, posts, responses, tweets, etc.), social campaigns and viral marketing. Our SEM marketing programs are also used to drive additional traffic into the social networking platform.

Platform E-Mail: Both HubSpot and Radian6 support multi-media, rich text email campaigns and, in our case, HD video to enhance recipient engagement. Mailing lists are compiled from website and HubSpot and Radian6 platform traffic and can be sorted by keyword, location, and other filters for specific marketing campaigns. CRM leads that are not on platform email lists can be added for inclusion on distribution.

Online Advertising: Online advertising (i.e. website placements, banners, etc.) are used only for special promotions, establishing a marketing partner website presence (with partner ads on our website), and joint marketing programs. General online advertising is not a Raystream marketing program.

Website Resource Archive: Our website is our prime online publishing site for marketing resources including whitepapers, newsletters, brochures, press releases, case studies, announcements, and marketing partner collateral.

Platform Press Releases: In addition to being published on our website, press releases are disseminated using one or more online media distribution platforms. Platforms such as BusinessWireSupport multi-media online and offline news media distributions to more than 150 syndications as well as Social Media streams like Facebook and Twitter, and Search Engine SEO title editing. Multiple platforms are used to cover the remaining 243,000 media contacts and 112,000 bloggers.

Trade Shows: We will attend between three to five business trade shows each year both as an attendee and as a participant (speaker, paper presentations, and/or booth exhibitor). Trade shows have consistently proven to be one of the most effective venues for 1) new product and service announcements, 2) collateral distribution, 3) industry awareness, and 4) new client contacts, particularly for larger accounts.

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Research and Development

We have devoted a significant amount of our resources to research and development and technological advancement.

Our research and development activities are conducted primarily in the United States at our Carrollton, Texas headquarters facility.

Our research and development program is primarily focused on developing and adding new features and improved functionalities to our existing product platforms. Our development strategy is to identify features, functionalities, processes and systems, in both software and hardware solutions, that are, or are expected to be needed or desired by our customers. Our current research and development efforts are focused exclusively on video processing solutions, including enhanced video compression and multi-device, multi-screen solutions. We also devote significant resources to production and playout and enhanced cloud-based initiative solutions specifically for video processing.

Our success in designing, developing, manufacturing and selling new or enhanced products will depend on a variety of factors, including the identification of market demand for new products, product selection, timely implementation of product design and development, product performance, effective manufacturing and assembly processes and sales and marketing. Because of the complexity inherent in such research and development efforts, we cannot guarantee that we will successfully develop new products, or that new products developed by us will succeed in realizing market acceptance. Our failure to successfully develop and introduce new products would materially and adversely affect our business, operating results, financial condition and cash flows.

Intellectual Property Protection

Our intellectual property (IP) protection strategy is vitally important because much of our future success and market value heavily depend on the Raystream technology and its advancements. Currently our IP is protected and maintained as a documented Trade Secret and additional patent protection will be sought, redacted sufficiently to support submitted claims, preventing anyone from re-engineering the code after the patent application/award is made available to the general public.

We have identified multiple applications and processes that have been exclusively developed by Raystream which represent multiple forthcoming patent protection filings not only in the U.S. but also numerous foreign countries. We intend to continue building our IP portfolio as development continues and resources are available.

We have registered the Raystream trademark with the Patent and Trademark Office (PTO) and will also be registering our product trademarks of Raystream*CLOUD*, Raystream*SERVER* and Raystream*LIVE* with the PTO in the short term. We will continue to protect our know-how, trade secrets and other intellectual property through a variety of means, including confidentiality agreements with our employees, customers, vendors and others as applicable.

Competition

The video encoding and transcoding industry is fiercely competitive and has been characterized by rapid technological change. In our market, our video encoding and transcoding products compete broadly with large, vertically integrated solution providers, such as Cisco, Harmonic, Telestream, Digital Rapids and a host of smaller companies, including Elemental Technologies, Zencoder, Broadcast International, Encoding.com, PandaStream and more.

ITEM 1A. Risk Factors

Not applicable to smaller reporting companies.

ITEM 1B. Unresolved Staff Comments

Not applicable to smaller reporting companies.

ITEM 2. Properties

Our corporate headquarters are located at 2101 Midway Road, Suite 140, Carrollton, Texas 75006. We occupy the space at the headquarters location under a thirty-six (36) month term lease, the term of which ends October 31, 2014. The lease covers approximately 3,931 square feet of office space. We currently maintain no other properties. See below for breakdown of future lease obligations:

Fiscal	Year	Amount
	2013	\$ 20,356
	2014	20,356
	2015	10,178
	Total	\$ 50,890

ITEM 3. Legal Proceedings

The Company is a defendant in one lawsuit, the total amount in dispute is approximately \$200,000. As is the case with all litigation, no assurances can be given as to the outcome of the lawsuit, however, we believe the plaintiff's claims to be without merit and Raystream intends to vigorously defend itself against these claims. Based on the foregoing, as of April 30, 2012 and as of the date these financial statements were issued, we do not currently believe a loss is probable and have therefore not recorded a provision for this claim. To the knowledge of management, no other litigation has been filed or threatened.

ITEM 4. Mine Safety Disclosures.

Not applicable.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

There is a limited public market for our common shares. Our common shares are quoted on the OTC Bulletin Board under the symbol RAYS.OB . Trading in stocks quoted on the OTC Bulletin Board is often thin and is characterized by wide fluctuations in trading prices due to many factors that may be unrelated to a company's operations or business prospects. We cannot assure you that there will be a market in the future for our common stock.

OTC Bulletin Board securities are not listed or traded on the floor of an organized national or regional stock exchange. Instead, OTC Bulletin Board securities transactions are conducted through a telephone and computer network connecting dealers in stocks. OTC Bulletin Board issuers are traditionally smaller companies that do not meet the financial and other listing requirements of a regional or national stock exchange.

The following table shows the high and low bid quotations of our common shares on the OTC Bulletin Board. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions:

Period	High (\$)	Low (\$)
February 1, 2012 - April 30, 2012	\$0.68	\$0.27
November 1, 2011 - January 31, 2012	\$2.51	\$0.53
October 17, 2011- October 31, 2011	\$2.23	\$1.56

Number of Holders

As of April 30, 2012, the 49,975,000 issued and outstanding shares of common stock were held by a total of 4 shareholders of record, including Cede & Co, which acts as a nominee for DTC; we are unable to determine the actual number of individual holders who own their shares through Cede & Co.

Dividends

No cash dividends were paid on our shares of common stock during the fiscal years ended April 30, 2012 and 2011. We have not paid any cash dividends since our inception and do not foresee declaring any cash dividends on our common stock in the foreseeable future.

Recent Sales of Unregistered Securities

None.

Purchase of our Equity Securities by Officers and Directors

None.

Other Stockholder Matters

None.

ITEM 6. Selected Financial Data

Not applicable.

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

Overview

We are an encoding and transcoding service and technology company providing video compression services. Video compression is the process of using modern coding techniques to reduce redundancy in video data for conversion into a digital data stream for transmission over the Internet, satellite, cable or wireless networks. We have developed and provide advanced video compression service platforms that facilitate and accelerate encoding and transcoding of virtually all Standard Definition (SD) and High Definition (HD) video (240p, 480p, 720p and 1080p), simplifying media conversion for multi-format, multi-device video workflow environments incorporating our Trade Secret optimization te