



March 8, 2013

Fellow Shareholders,

I write to tell you about a number of recent and significant events at Democrasoft and to help you understand why we have taken various steps which will change the nature of our company from an operating company to a holding company.

After we distributed the proceeds of the Microsoft settlement in 2005, we were a three employee company with about \$5MM in cash and a publicly-traded stock. We also had a significant tax loss carry-forward. We identified some very significant market opportunities and thought we could take advantage of these opportunities. Because we had a history of successfully transforming ideas into products and realizing licensing revenues, we decided that the best way to enhance shareholder value was to try to turn these newest ideas into successful products and technologies that could be licensed. The road from those ideas to the creation and marketing of actual, licensable product offerings was not straight, but we did achieve our goal. For example, we created a powerful, online collaboration platform that can be leveraged in a multitude of ways. Today more than 44,000 teachers all around the globe have launched their own *Collaborize Classroom*® sites (check out [www.CollaborizeClassroom.com](http://www.CollaborizeClassroom.com)), and this multiple award-winning education platform has gained enormous recognition as a fabulous teaching tool that raises student engagement significantly. We also continue to receive inquiries regarding the use of other Collaborize applications, *Collaborize Workplace*™ and *Democrasoft TownHall OnLine*™.

Built off the same, core *Collaborize* platform, *WeJIT*™, our embedded-in-ebook collaboration tool, was recently recognized with the *Publishing Innovation Award* in non-fiction for 2013 at *Digital Book World* in NYC (*WeJITs* were embedded in J.D. Messinger's *11Days in May*, the award recipient book). Working with a well-recognized publishing agency, we have already begun the process of signing up e-book publishers to resell *WeJIT* capabilities to authors both in the US and overseas. We are also in discussions with a number of companies with respect to potentially significant strategic

relationships for both *Collaborize Classroom* and *WeJIT-related* products. In fact, there are a great many important applications for this “portable” way of building *topic-based* collaboration, embedded in almost any 3rd party application or platform (we suggest that you visit [www.mywejit.com](http://www.mywejit.com) and see for yourself how easily the WeJIT can bring order into email chaos, for instance). But those relationships take time and money to bring to fruition.

An additional bottom-line consideration is that while we have achieved success in the creation of our underlying (and licensable) technology platform, as well as initial market traction in education, publishing and elsewhere, we have not yet achieved the level of success needed to become financially self-sufficient. Indeed, for the past year, having invested our own funds into further developing and introducing our online collaboration solutions, we have been living hand-to-mouth, from bridge loan to bridge loan, as we have pursued what we believe to be clear (perhaps even inevitable) opportunities and channels for future revenue.

In 2011, we knocked on all the venture capital doors we could find with regard to funding *Collaborize Classroom* (*WeJIT* had not yet been developed), and we have tried (and continue to explore) other channels to find substantial and permanent funding to carry us through until we can become self-sufficient. Yet one huge impediment has remained - our status as a tiny, pink-sheet public company.

As we previously reported, we repeatedly we have been told that if our stock was not publicly traded, investors would likely be interested (being a pink-sheet, thinly-traded public stock with 20 years of history has been more complex than most professional investors want to become involved with). But we have consistently believed that the people who trusted us with their money (our direct investors and public shareholders) should have a chance to enjoy the fruits of our labors as we worked to reinvent and re-launch our company over the past several years; thus, we have consciously chosen to put our shareholders’ interests above what might otherwise be simpler solutions to our fundraising hurdles.

To try to conserve cash, we have been through two staffing and pay cutbacks since December of 2011 (our Board of Directors has not received any compensation since then either), each time emerging from the experience with renewed energy and focus; and in fact we have given birth to important new innovations and intellectual property during these times; *WeJIT* and the associated patent activity are a prime example. It is a tribute

to all of our team and a testament to the shared vision that everyone comes to work every day dedicated to making Democrasoft into the financial success we all know it should be and believe it will ultimately become.

We have been blessed with incredible support from our largest shareholders, who have continued to provide financial resources—at above-market conversion prices—during this period. Let me repeat that: while they could have forced the company into deep dilution, these shareholders have invested at prices *above* the market.

So where is this all going now?

In an attempt to respond to the concern of potential investors (and even some potential strategic partners) who do not want to invest in a company whose stock is publicly (and thinly) traded, while simultaneously trying to preserve some upside for our long-term shareholders, we have determined to follow the advice of a number of potential and actual investors by restructuring our business in a way that allows us the simplicity of operating as a private company, while preserving the eventual liquidity that may be available through our public shell.

Our Board of Directors has approved and we have completed the transfer of substantially all of our assets and liabilities into one of our two wholly-owned subsidiaries, Collaborize, Inc. This relatively new, wholly-owned private company is the one that will issue new securities, as appropriate, to interested investors. Our public company (Democrasoft, Inc.) will simply be the sole initial shareholder - it will become, essentially, a holding company, and will engage in no other activities for the foreseeable future, except as it may benefit from the operations of its private subsidiary. We are changing the name of the public company to Democrasoft Holdings, Inc. (to reflect its actual role), and then the private company (the actual *operating* company) will immediately begin operating as Democrasoft. The financial results of the two companies will be consolidated, as required by the accounting rules, but because we have so few assets and so few shareholders, we will cease publicly distributing financial or other information. Of course, we will continue to issue shareholder communications and press releases as appropriate.

We understand these changes may, at least temporarily, inhibit shareholders' ability to trade their stock; but the truth is that there has been almost no meaningful way for any shareholder to trade any meaningful number of DEMO shares for a very long time. There

is almost no trading presently, and at less than two cents a share, there is little to be gained by any shareholder's selling. The true value in our stock is in the promise of our Collaborize platform, in all of its various licensable forms, including Collaborize Classroom and WeJIT (the entire value of which will now reside in our private subsidiary). Of course, there can be no assurance that we will be able to realize that value.

It will take cash to realize what we believe is our true value. We are working diligently to create that cash in the form of revenues (and are seeing initial results), but to have a fighting chance to raise the supplemental cash that we need to fully scale our business and realize our greatest corporate opportunities, we are taking the most sensible available step by making our private subsidiary, Collaborize, Inc. (which will do business as Democrasoft) our *active, operating* vehicle and working to raise enough money in this non-public vehicle from accredited investors and/or strategic partners to accomplish our goals. We believe that new investors will be motivated to participate in our growth and success, without the roadblocks and nonsensical valuation limits created by being a thinly traded pink-sheet public company (while we are not soliciting investment, any accredited investor - generally, net worth greater than \$1 million - interested in understanding more about our plans for capitalizing the operating company can call me at 707-541-3870). Of course, we cannot assure that we will be successful in raising the funds needed to exploit the Collaborize platform. But we believe our prospects are enhanced by this course of action.

We take this opportunity to also inform you of two other developments:

- (1) Rick Smolan has resigned as a director of Democrasoft and both of its subsidiaries because of the press of his other activities. We have appreciated his contributions and his accepting a continuing role as an advisor. After Rick's resignation, we reduced the number of authorized directors of both our public company and the new, private subsidiaries, to five.
- (2) We have just been issued our first patent stemming from our Collaborize platform development. U.S. patent # 8,392,504, was published on March 5th, 2013, and describes the key attributes of WeJIT and how these capabilities can be embedded within any other digital application and/or platform (as well as shared from within that integrated space).

We continue to appreciate your support and look forward to sharing word of our success in the coming months and beyond.

Richard Lang  
Chairman & CEO  
Democrasoft, Inc.

*Certain statements in this letter constitute "forward-looking statements." All statements other than statements of historical facts included in this letter, including those regarding our future financial position and results, business strategy, plans and objectives of management for restructuring, fund raising and future operations, including plans for marketing WeJIT and statements about the prospects of WeJIT are forward-looking statements.*

*Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, changes in the political, economic or regulatory conditions in the markets in which we operate, material disruptions in the education and publishing industries and other factors.*

*Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.*