

Democrasoft, Inc.

Annual Report

For the Fiscal Year ended: December 31, 2011

Delaware

84-1141967

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification Number)

50 Old Courthouse Square, #300

Santa Rosa, California, 95404

(707) 541-3870

Note that our securities are not registered under Section 12(b) or
under Section 12(g) of the Exchange Act

Common Stock \$.00001 Par Value

As of December 30, 2011, there were 43,490,480 shares of the Company's Common
Stock outstanding. The closing price of the Common Stock as reported on the NASDAQ
Over-the-Counter Bulletin Board on September 5, 2012 was \$0.12 per share.

The Company's transfer agent is ComputerShare, Inc. Its address is P.O.
Box 1596, Denver, CO 80201.

DEMOCRASOFT, INC.
2011 ANNUAL REPORT

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Democrasoft®; Collaborize®; Democrasoft Town Hall Online™; Collaborize Town Hall Online™; The Wisdom of We™; Collaborize Classroom™; Collaborize Workplace™; Collaborize NPO™; Social Networking With Purpose™; Social Networking With Purpose™; Count Me In™ are registered trademarks of Democrasoft, Inc. All other corporate or product names may be trademarks and/or registered trademarks of their respective owners.

SPECIAL NOTICE REGARDING FORWARD LOOKING STATEMENTS

Some of the matters discussed under the captions "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events, including, among other things, the following:

- * Implementing our business strategy;
- * Maintaining sufficient cash balances to continue in operation;
- * Rapid technological changes in our industry and relevant markets and
- * Competition in our market.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and similar expressions. These statements are based on our current beliefs, expectations and assumptions and are subject to a number of risks and uncertainties. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. These forward-looking statements are made as of the date of this report and we assume no obligation to update them or to explain the reasons why actual results may differ.

THE COMPANY

Democrasoft, Inc. is a 22 year-old public company that three years ago began reinventing itself as a social networking company. In March 2010, Democrasoft launched its groundbreaking online collaboration platform, *Collaborize™*, designed to help any group with a common purpose organize its conversations and decision-making into structured collaboration with both quantitative and qualitative results. In January of 2011, responding to organic market pull, Democrasoft officially launched a specialized Collaborize product for education, Collaborize Classroom (CC), which has since grown from several hundred individual teacher-launched CC sites at the beginning of 2011 to

over 20,000 such sites a year later, while delivering almost 1.5 million individual topic-based lessons to individual students on the CC platform. In November 2011, the Company announced the launch of our global CC Topic Library, which allows educators anywhere in the world to share with other educators the topic-based lessons that they have created. Then in early February 2012, we released our first Collaborize Classroom mobile app for the iPhone, iTouch and iPad.

The Company now has five cloud-based collaboration offerings developed on a common proprietary platform. The Company's lead offering, Collaborize Classroom[®], currently has the most market traction and therefore the Company's greatest focus. The basic version is provided free-of-charge to teachers as a tool for using the Internet to extend and deepen classroom discussions. Teacher-launched Collaborize Classroom sites have been growing rapidly; as of August 1, 2012, teachers had launched more than 30,000 sites and there were more than 210,000 registered users on the Collaborize Classroom network. The Company has successfully test marketed a premium version of its Collaborize Classroom product and has already developed a mobile version for both the iPhone and iPad.

The core of the Collaborize Classroom experience is that, after classroom discussion about any given topic (e.g., *the Civil War*), a teacher posts a self-contained topic/question (e.g., "*Who was our best wartime president and why?*") on the classroom's private and secure online Collaborize site. (The teacher has the option of uploading supplemental multimedia materials related to this individual topic). Students then respond, and participate in an online discussion on their own time, learning from each other while addressing the question or discussion prompt. Student replies are compiled and posted in real-time. Since its launch in October 2010, teacher and student response to Collaborize Classroom has been overwhelmingly positive. The iPhone and iPad mobile versions were created in response to market pull, and an Android version is being considered.

As has been the case with other successful social networking sites such as Facebook, Twitter, LinkedIn, etc., the Company believes that it must first build a wide base of registered users before it can effectively maximize potential monetization. Therefore, its efforts to date have been focused on getting Collaborize Classroom deployed as widely as possible. Collaborize Classroom has an added advantage in its ability to demonstrate that its users represent "sticky eyeballs". Average time spent logged-in for a Collaborize Classroom student is currently 15 minutes.

The current version of Collaborize Classroom ("Level 1") facilitates teacher-student and student-student discussions extremely effectively when used in conjunction with physical classroom discussions and does so in a way that students are already comfortable with, due to their familiarity with social networking sites like Facebook. Collaborize Classroom also enhances the effectiveness and efficiency of teachers; saving both time (2-3 hours per week average per teacher) and "hard costs" (\$60-90 of paper and ink per month per teacher).

The Company has also developed “Level 2” of the Collaborize Classroom platform, which will provides additional capabilities that the Company believes are not available anywhere else and which it also believes substantially enhance the platform’s capabilities and competitive advantages. Level 2 gives teachers around the world the ability to share their best work with other teachers. For instance, a teacher in New York might post a Collaborize Classroom topic (“Who was the best Civil War General?”) and note that the topic works best with 8th graders; a teacher in a small town in Minnesota can, with a couple of clicks, import both the topic and the supporting materials, use it in his class and then annotate it with his own experience.

By focusing substantially all of its efforts in 2011 on developing the Collaborize Classroom opportunity, Democrosoft established that it was providing “best-in-class” functionality for online discussions within the education market. However, it soon became evident that one of the chief competitive advantages of Collaborize, *granularity of content*, could be extended exponentially by introducing a new dimension, “portability,” to the Collaborize experience itself (allowing this experience be extended anywhere on the Internet with a shareable short-URL link).

It would be possible to offer most, if not all, of the features, benefits and advantages of Collaborize not only to educators and students, but to *any* user, without the pre-requisite need for launching Collaborize destination sites (in any market category, including education). The creation and dissemination of these stand-alone collaboration/discussion topics could be decoupled from Collaborize sites themselves, and further, they could be embedded inside any number of other platforms and applications in any number of markets and industries.

The realization that core Collaborize functionality could be easily exported to any location (online or otherwise) where one or more people with a common purpose (or even just a common interest) are assembled, has significant implications both for Collaborize Classroom and for the Collaborize platform in general. These implications point to significantly enhanced monetization opportunities (including licensing) and an opportunity to position Collaborize as a global tool or utility (a “*google of Collaboration*”) which can be integrated almost anywhere online.

BUSINESS

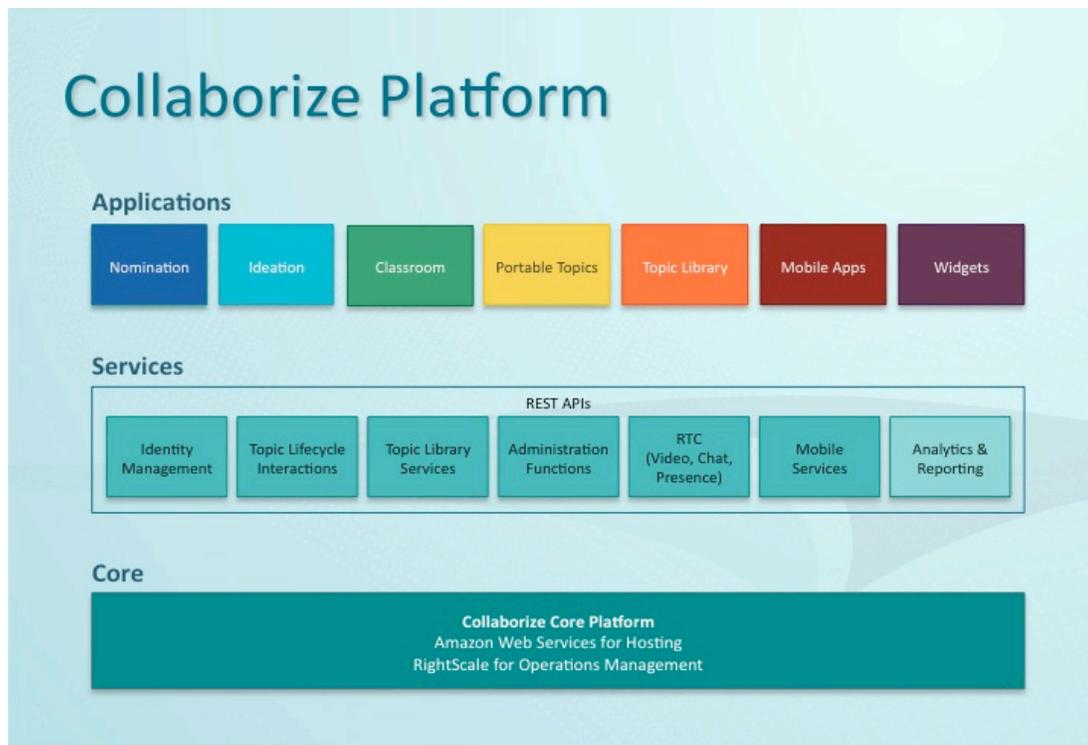
The Company’s ticker symbol is DEMO (or DEMO.PK). Our offices are located in Santa Rosa, California. The Company’s management has been consistent for many years—CEO Richard Lang, Vice President/CFO Eric Walters and Vice President/General Manager Colt Briner have been with the Company for more than 50 years in the aggregate.

For years, the Company successfully licensed its intellectual property in the field of network optimization, its prior business. During the past approximately three years, the

Company has been developing Democrosoft’s adaptable cloud-based collaboration platform with the mission to provide “*social networking with purpose*”, so that users are not merely spending time connected but rather actually *achieving results* together. The Company’s collaboration platform, which it has named “Collaborize”, was officially launched in March, 2010. Since then, the Company has refined the basic platform and provided it in five different applications, each built on the Company’s core Collaborize platform.

THE COLLABORIZE PLATFORM

The Company has built a robust cloud-based platform comprised of a several key components that can be combined and expressed in a multitude of ways. These components can be simple and singular (a mobile app that lets the user create and share a *WeJIT* from his or her mobile device – see below) or comprehensive (a licensable platform slice that provides destination sites a way to share discussion topics (*WeJITs*) in an online library setting, and mobile access to both). Applications expressed off the Collaborize platform can service education (in its first year, Collaborize Classroom has already delivered more than 1.8 million topic-based lessons to students around the world), innovation (the ability to operate as a “Challenge” engine for private and public enterprise), and as a “nomination” engine that uses a template based form to quickly collect nominations from *every* participant, while automatically ranking them in order of popularity in real-time (this enables even large groups to nominate people, songs, movies, entries, recipes, almost anything).



There are a number of features in the Collaborize platform that the Company considers unique in the industry; it has filed U.S. Patent applications to protect these

unique features. The flash videos located at www.democrasoft.com should assist the reader in understanding the Company's core social networking business and various offerings.

The five current offerings built on the Company's Collaborize platform are as follows:

- **Collaborize Classroom_®**. This form of the Collaborize platform has gained the most traction to date. It is a free offering to teachers. Because of its early success, during 2011 the Company allocated most of its resources to this offering and deferred expenditures of substantial resources on the following four products which, with greater resources, it can later focus on exploiting.
- **Collaborize Workplace_™**. Flexible enough to be either inwardly facing (communicating with employees) or outwardly facing (communicating with actual or potential customers), this application has to date seen only limited activity; however, the Company believes that it has great potential as a Social CRM or HRM tool, fields that are growing very rapidly world-wide.
- **Collaborize NPO_™**. Aimed at the nonprofit market and priced to be attractive to nonprofit entities which can use it either inwardly or outwardly facing (or both), this application can be extremely useful in times of limited resources for managing donors, volunteers, Board members and staff, as well as for engaging prospective supporters. The "Results and Resources" page should be of particular interest to nonprofit organizations.
- **Democrasoft Town Hall Online_™**. The Company believes that candidates, incumbents and civic groups will be interested in having effective real-time dialogue with constituents as well as clear, actionable real-time results from that dialogue. The Company believes that multiple political trends will tend to increase interest in this product by elected officials, candidates and even college student government organizations.
- **WeJIT_™**. Built on the core Collaborize platform, WeJITs offer a new and elegant topic-based experience that creates a structured, self-contained, online collaboration that can stretch across platforms and communities. "Portable" WeJIT collaborations will go where they are needed, wherever the participants await, while virtually eliminating the messy, time-consuming, email-based "reply-to-all" decision making that has plagued the online collaboration process since email was first introduced.

Collaborize Classroom_® - The basic version of Collaborize Classroom ("Level 1") facilitates teacher-student and student-student discussions extremely effectively when used in conjunction with physical classroom discussions and does so in a way that students find extremely easy and enjoyable. Information about Collaborize Classroom can be found at: www.CollaborizeClassroom.com. A video describing the basics of

Collaborize Classroom Level one can be viewed from the following link: <http://collaborizeclassroom.com/multimedia.html>). Level 1 also enhances the effectiveness and efficiency of teachers, reducing both time spent grading papers and also dollars normally spent making paper copies of student assignments (teachers currently using Collaborize Classroom have estimated that an average teacher can save approximately \$60-90 per month with this free offering because of reduced paper and ink usage).

The Company believes that the potential market for free and low-cost tools to enhance educational effectiveness is very large as a result of federal, state and local resource limitations. In an environment in which teachers often have to pay for their own supplies and classroom sizes are being increased substantially (reducing the amount of time a teacher can spend with individual students), teachers who have been using Collaborize Classroom have raved about it and its very positive effects on student populations (e.g. *“I have seen more camaraderie between students since implementing Collaborize; they often reference discussions that have taken place online, while in the classroom.”*) and student testimonials have been glowing (e.g. *“I enjoy Collaborize as part of our class because I feel like it is easier to participate once there has been more time for reflection.”*).

The success of products that the Company believes to be either more expensive or more complicated, less flexible and thus less attractive (e.g., Blackboard and Edmodo) is clear indication of the market size, the interest in online learning tools and the opportunity that the Company believes exists. Educators are actively looking for ways to do more with less, and adoption of Collaborize Classroom to date has been a very positive indicator of response from the educational community.

Instead of time-limited, teacher-led discussions often dominated by a few participants, with Collaborize Classroom, the online discussion about a teacher-initiated topic or question can occur at any convenient time. Teachers have repeatedly noticed that the less aggressive students feel freer to participate in the online discussions, which creates a stronger sense of interaction and community. Because it is incredibly easy to upload multimedia elements (video, audio, images, documents), the teacher can include, for instance, a piece from the New York Times or a YouTube video to illustrate a point before posing a question. The questions can then be in one of four currently available formats: yes/no, multiple choice, Vote or Suggest (a proprietary interaction format developed by the Company) and forum (open discussion). Each of these formats has its own form of “Results” report so that the participants can see the results of classroom activity when posted by the teacher.

With the introduction of Level 2 (the Collaborize Classroom Topic Library), the Company has expanded the usefulness of Collaborize Classroom, permitting teachers around the world to share their best efforts with other teachers, and permitting the other teachers to easily use the work product of their peers. A teacher can post/share her Collaborize Classroom topic, together with the multimedia element that the teacher used, and any teacher anywhere can, with a few clicks, use that topic and then report back on his experience, making it even more useful for other teachers who later use it.

The there are approximately 3.1 million teachers in the United States serving 30 million students in grades 6-12, which the Company perceives to be the sweet spot of its target market; however, the Company has been seeing a substantial number of Collaborize Classroom sites launched by teachers in elementary schools across the country, which may significantly increase the target market. There have also been sites launched by college and university professors, both within the United States and abroad. The Company conducted a customer-sponsored test of the utility of Collaborize Classroom at the college and university level; which showed that the college and university market is of substantial interest, particularly since colleges and universities might have an interest in premium versions of Collaborize Classroom. To date, the Company has not devoted substantial resources to penetrating the college and university market.

Other than students lacking access to the internet (currently a very small portion of the target market) the Company does not know of any reason why any classroom could not make use of Collaborize Classroom. Even teachers who currently use other computer-based products have begun using Collaborize Classroom in addition to or instead of the other offerings because of its ease of use and its effectiveness in the engagement of students.

The Company has been using a variety of methods to promote usage of Collaborize Classroom. These include partnerships and marketing programs with industry organizations such as Scholastic, Simple K12, TregoED, TechKnow, A+ and others. Additionally, the Company attends education industry events such as CUE (Computer Using Educators) and ISTE (International Society for Technology in Education).

Adoption of Collaborize Classroom can be initiated either by the teacher/user or as a result of an administrative determination and recommendation, such as has been the case so far in a growing number of schools and districts throughout the U.S.. Since the Company began significant activity to place Collaborize Classroom in schools, adoption has been relatively rapid. Since November 2010, the number of teacher-launched Collaborize Classroom sites has climbed from approximately 400 to more than 34,000, with our user count climbing from approximately 1,000 to approximately 200,000 currently. (Of course, some teachers register and then fail to use the site; similarly, some teachers use the site more than others.) The Company has been experiencing a compound growth rate in the number of teacher registrations of approximately 20% per month during this time period.

As of any date, the number of students using Collaborize Classroom is a lagging indicator, because there is a time lag between registration and launch, and teachers generally want to experiment before using the tool widely. Also, teachers appear to require a lead time before migrating entire classroom activity into a new, online mode, usually coordinating this migration with ideal points the semester's curriculum.

WeJITs. - Democrasoft believes it is poised to turn online collaboration on its head by making the process so simple and fun that anyone with access to the Internet can instantly launch a productive collaboration with any number of people anywhere on the planet. In the same way that Henry Ford put a 4-wheeled vehicle in every garage, Democrasoft is in the process of putting an instant collaboration vehicle within reach of every group with a common purpose.

From family members planning a reunion, to Board members developing strategy, to political campaigns and social movements looking for a simple and effective way of gathering both quantitative and qualitative group input; virtually any group will be able to quickly and easily discuss any topic and solve problems together online. Democrasoft will introduce the *WeJIT*, a new and elegant web-based experience that creates a structured, self-contained, online collaboration and gives it wings. “Portable” *WeJIT* collaborations will go where they are needed, wherever the participants await, while virtually eliminating the messy, time-consuming, email-based “reply-to-all” decision-making that has plagued the online collaboration process since email was first introduced. The *WeJIT*, is simple to access on any mobile device and/or any desktop. The related components can be licensed for integration into other existing platforms and applications, bringing the power of simplicity, effectiveness and fun wherever group decision-making or contemporaneous conversations are needed. Numerous currently pending patent applications will help insure a competitive advantage for Democrasoft as it launches its new *WeJIT-based* collaborations in every industry and environment imaginable.

The Collaborize *WeJIT* represents a breakthrough in online collaboration and communications. It is the embodiment of the new Collaborize portability, and the foundation of the company’s vision:

The WeJIT is an individual, self-contained collaboration unit (and topic), generated by a cloud-based application accessed either on a desktop or mobile device, that proliferates in the form of a short URL link that can be distributed by any number of means, including email, embedded widgets and social networks.

This *WeJIT* Creator (www.MyWeJIT.com) will generate dedicated URL links that can be deployed in a variety of ways, including links pasted into other existing applications (i.e. in education, Blackboard, Moodle, etc. or in non-education, Taskera, Sharepoint, etc.). The links to *WeJITs* will also be attachable to blog sites, shared via email or private social networks, and as direct links to existing Collaborize sites (these URLs can even be hand-written on a white board for students to copy into their own browsers at a later time).

Because deployed *WeJITs* exist as stand-alone web pages, anyone can deploy them (using any of the means described) independent of the need to launch or maintain an individual Collaborize site (although the option to do so will still exist and will be encouraged - a secondary monetization path for Democrasoft). This will provide a platform from which to create and deploy topic-based collaborations to any type of group, whether formal or ad hoc, anywhere, anytime.

The *WeJIT* contains *both* quantitative and qualitative data. When opened, it reveals all of the elements that are currently part of any collaboration/discussion topic that one might find on an individual Collaborize or Collaborize Classroom website. The *WeJIT* has a Title (which can be the name of a question or query), some introductory comments or instructions, an optional embedded attachment (document, image, video, etc.), and most importantly, an “engagement *type*” - one of various unique collaboration structures that allows a participant to “weigh-in” on any topic or question.

There are currently 4 engagement types available in the Collaborize platform. They are (1) “Yes/No” which is a debate structured interaction, (2) “Vote or Suggest” which is a collaborative brainstorming structure (3) “Select”; a Multiple-Choice format and (4) “Forum” a standard threaded discussion model. Many other *WeJIT* types have been designed and patent applications are on file for some of these engagement models. The “type” of *WeJIT* can change easily at the election of the person creating the *WeJIT*. All *WeJITs* also contain a space for the participant who opens the *WeJIT* to add individual commentary. Importantly, all participants in an individual *WeJIT* discussion, regardless of their physical location, see real-time votes and comments from all other participants anywhere in the world.

The ability to **share** a *WeJIT*, in a multiplicity of ways, is of prime importance. Any *WeJIT*, because it is initially expressed as a URL link, can be distributed via any number of mechanisms, including email and via any number of social networks (e.g. FaceBook, Twitter, LinkedIn, etc.). As soon as an invited participant clicks on the *WeJIT* link that was generated by the person creating the *WeJIT* with the *WeJIT* Creator app, the link opens a dedicated web page containing the complete topic and all the comments and votes that other participants have submitted to that point. Even more importantly, *WeJITs* can be re-shared, re-Tweeted and generally replicated and distributed ad infinitum, providing the potential for viral growth of any *WeJIT* of public interest (even within specialized fields of interest - e.g. sports, entertainment, politics, etc).

ELIMINATING “REPLY-TO-ALL” EMAIL

The ability for Collaborize to be expressed in a “portable” fashion exponentially increases the number of people that can suddenly collaborate online, even if only for a brief moment around a singular item of common interest. For example, a business needing to build consensus around where to hold their next annual meeting can use the *WeJIT* as an elegant alternative to email. Democrasoft estimates that through the use of *WeJITs*, more than 80% of all email traffic involving groups of people can be eliminated. Instead of sending out an email to 25 people soliciting suggestions, and then being subject to the scores (if not hundreds) of emails generated when various recipients of the email hit “Reply All,” one person can create the question (“Where shall we hold our Annual Meeting?”) as a *WeJIT*, and simply share the resulting link with the 25 co-workers. Instead of generating unending response and follow-on emails, each participant will click on the link, be taken directly to the dedicated *WeJIT* page, and be able to either suggest a location or vote for one that has already been suggested. Every participant will

see everyone else's votes and comments in real-time, and all suggestions will automatically be ranked by popularity. This "Brainstorm" *WeJIT* topic type (one of many available) saves hours of time and resources and can be launched anytime by anyone (from the *WeJIT* Creator app on their computer, their mobile device, or from a web-based central location - e.g. "WeCollaborize.com" or "MyWeJIT.com").

One can envision scores (if not hundreds) of instances when a group with a common purpose will want to launch a private, instant, online collaboration using a *WeJIT*. Any group invoking the "Prioritize" *WeJIT* will quickly be able to create consensus priorities around any number of decisions (funding, resourcing, goals, etc.). *WeJIT* "Debates" will provide instant "pro/con" discussions around any important decision for an organization (public, private, non-profits, etc.). By making Collaborize functionality "portable" it becomes possible to create "plug-ins" that can bring this unique and powerful communication utility to other programs, platforms and web applications.

DISCUSSIONS THAT MULTIPLY

The use of *WeJITs* can also extend beyond private online collaboration into the realm of "public" discussions on any number of topics of interest to a larger public audience. For instance, anyone could launch a *WeJIT* soliciting points of view on a controversial political decision or in search of a solution for a community problem. Because of the simple ways that any *WeJIT* can be shared (especially via social networks), recipients of a *WeJIT* can quickly extend the reach of a discussion topic into larger and larger audiences, all while simultaneously collecting comments and votes in real-time. The discussion and votes around a particular topic could actually go "viral" as more and more people participate in it and forward the *WeJIT* link to others.

Much in the same way that Google created a simple point of entry for users to rely on for a single purpose (searching for info about a particular term), Collaborize has the opportunity to provide a simple tool or utility that can provide anyone, anywhere with the ability to launch an instant online collaboration with any group, large or small, private or public, on any subject imaginable (and, if desired, to watch that collaboration or discussion spread throughout the Internet among people who share a common interest in that particular *WeJIT*).

MONETIZATION

WeJITs

While the *WeJIT* provides numerous monetization paths for Democrasoft, it is the very architecture of this new Collaborize solution that will allow it to replicate and proliferate from within.

There are 2 primary components that Democrosoft will use to bring online collaboration to a new zenith, by leveraging the “unfair advantages” inherent in its patent pending portable *WeJIT* capabilities, based on its Collaborize platform. These components are (1) the Topic Creation App (the *WeJIT* Creator) in both mobile and browser-based incarnations, (2) The licensing of embedded “Instant Collaboration” into other existing products, platforms and applications. These components are reviewed in greater detail, as follows:

1. The *WeJIT* Creator (www.MyWeJIT.com) will allow any individual to create new topic-based collaborations directly from either a desktop (browser) or a mobile device (smart phone and/or tablet). This *WeJIT* “creation” capability will allow the creation of individual topics (WeJITs) that can include videos and images, documents and embedded links (either already residing on the smart-device, or obtained from an outside web source). Regardless of where the *WeJIT* originated, the “participant” who receives and participates in the *WeJIT* topic will never be charged to participate in the conversation/collaboration.

Ultimately, *WeJIT* creation can be from a browser, a mobile device or even an app sitting on a user’s laptop or personal computer. *WeJIT* creation apps will also be available in custom versions for different vertical markets and as components to “white label” licensing (see below). The mobile apps will be available for both IOS devices (iPhone, Mac, iPad, iTouch) and also in an Android version. A free “participation” app is already available for students participating in Collaborize Classroom collaborations.

The www.WeCollaborize.com (or www.MyWeJIT.com) website will provide free basic *WeJIT* functionality, with additional *WeJIT* functionality available as an upgrade(s) or Premium version(s). The company will drive traffic to the home MyWeJIT.com (or equivalent) website in order to allow *anyone* to instantly create a *WeJIT* that can be shared with any group, thus providing an immediate *experience* of Collaborize with virtually no barrier to entry. This capability at the WeCollaborize website will position us as a central hub for instant online collaboration, in much the same way as Google serves as a central hub for web searches. Once individuals have launched free collaborations at this hub location, they will be given the opportunity to upgrade to the premium versions of the *WeJIT* Creation app, as well as given access to premium “plug-ins” to that app, in a variety of forms. They will also be invited to launch paid fully-featured Collaborize sites (pricing based on number of participants).

Much like other cloud-based productivity app such as Evernote and Dropbox, the free WeJIT creator is designed to give users the fullest and best experience possible while still maintaining specific limitations that they can remove by upgrading to premium versions of the application.

2. Licensed Embedded “Instant Collaboration” into other existing products, platforms and applications. Democrosoft can monetize *WeJIT* creation capabilities (as well as any combination of its suite of Collaborize platform components) as integrations into numerous other platforms and applications that individuals and organizations

licensees are already using. Examples of targets for this this type of Collaborize integration include (a) Education, (b) e-Publications, and (c) the Enterprise.

a. Education: This integration can be in the form of a “plug-in” that brings complete Collaborize Classroom functionality (including categories, member management, analytics, etc) to any Learning Management System (LMS). A teacher using Blackboard as a primary LMS would be able to bring CC functionality into Blackboard by licensing a CC plug-in (or the district could license this for them). As another example, a hospital could license Collaborize platform capabilities (WeJITs, Topic Library, Mobile apps, etc.) for integration directly into the enterprise physician management platform that they are already using.

b. E-Publications: In e-Books, e-Textbooks and e-Magazines, and business related e-publications (e.g. e-Annual Reports, e-Shareholder Communications, e-Collateral materials), Collaborize functionality can be embedded in one of two forms:

- *Pre-loaded* topic-based discussions created and pre-populated by publishers (in eTextbooks, these can be embedded in the “Teachers‘ Edition”), and/or
- *User-generated* topic-based collaborations created by individuals. These would utilize the embedded *WeJIT* Creator to generate individual topic-based *WeJITs* that reference specific segments of written content, images or other multi-media contained in the e-Publication.

Use cases will vary depending upon the type of e-Publication:

- *Within an eTextbook.* As students increasingly access their lessons online, the publisher or teacher-created *WeJIT* capability will allow individual topic-based lessons to be created and deployed either within the e-textbook itself or as a generated link (URL) leading to a private, dedicated web page representing the individual topic-based lesson, which can be accessed with any Internet browser (or from a CC “participation” mobile app).
- *Within an e-Book.* Interactive e-Readers such as the Kindle (or a Kindle- like app running on a tablet such as the Apple iBook or other such tablet), the embedded *WeJIT* Creator capability will permit a reader to highlight a section of text and then instantly launch a collaborative conversation with either (1) other readers who have previously highlighted the same text, or (2) any other individuals, who may not be reading the same e-book, but who might have an interest in the highlighted subject matter. In the alternative, any reader could simply highlight a section of text, click on the *WeJIT* icon, and instantly create a new discussion topic, which would generate a URL link and a channel for the reader to share the link via email or via any number of social networks.
- *Within an e-Magazine.* Any reader could invoke the *WeJIT* Creator capability with the click of an icon, highlight a segment of text, and image or a video within the

e-Magazine, and then reference the selected media within the newly created *WeJIT*. The reader would decide on the type of collaborative discussion (group “review,” “debate,” “brainstorm,” etc.) and then forward the generated link to as few or as many people as might be interested in that particular discussion/collaboration topic. For instance a sports fan might be reading an e-Magazine about boxing, and be interested in a controversial referee call during a prize-fight that is being written about. Perhaps a video clip of the fight would already be featured within the e-Magazine. This reader could quickly involve other individuals (friends, team-mates, family, etc.) to weigh-in on the controversial decision, with the ability to cast a vote while also adding “pro” or “con” commentary. Given the wide variety of special interests that are represented by various magazines today (cooking, sports, music, movies, cars, guns, etc.) the likelihood that e-Magazine readers would be attracted by the ability to easily bring others with similar interests into a fun conversation about a common interest seems quite high.

The ability to embed Collaborize *WeJIT* capability in various types of e-publications is a technical capability which can be licensed to the publishers of these various e-Publications. Versions of these e-Publications which contain this capability will carry additional value to both the publishers/authors and to the consumers who ultimately pay for the e-Pubs (including a link to the online location where the original e-Publication can be purchased). For this reason, we believe that publishers will be eager to provide this fun and engaging capability in their products and will be happy to license the *WeJIT* capability as a competitive and profitable advantage (and eventually a feature that consumers come to expect).

c. The Enterprise: At least three opportunities exist to monetize the elements of the Collaborize platform within the enterprise. These are (a) as licensed “white label” vertical industry applications, (b) licensed to hardware manufacturers, in the form of embedded “native apps” on hardware devices, and (c) as licensed integrated elements to existing CDM (Collaborative Decision Management) Platform Providers for integration into their existing platforms, which they already sell into the enterprise. These licensing opportunities are further described as follows:

- **Licensed Vertical Industry Applications** - Democrasoft can license combinations of its platform elements (e.g. Desktop App, Mobile App, Stand-alone site, Library, etc.) as a “white label” product to enterprise organizations, value-added resellers (VARs) and distributors within certain vertical markets (e.g. medicine, accounting, entertainment and law, etc). Our white-label licensees would pay a non-recurring set-up fee for the initial customization (look, feel, branding) of the various licensed components (which would operate together). They would also pay an advance on future royalties due, based on the number of “seats” that are licensed (essentially, the number of authorized users of the platform). Professional services (moderation, customer support, etc) would be add-on costs to the licensee, as needed. As an example of licensing via VARs, there are specific organizations that already provide software and IT products to

the medical industry. One of these organizations, as our master licensee, might bundle or directly sell a white-labeled version of Collaborize (featuring the portable *WeJIT* capabilities but also including a topic library, mobile app, etc.) to the Mayo Clinic, as a Physician’s Collaboration Platform or Toolkit. Mayo would provide this to doctors for use on their desktops or mobile devices, as a stand-alone “powered by Collaborize” app - part of the licensed components (which could include a shared Topic library, stand-alone sites, widgets, etc.). Any doctor could then instantly launch a collaborative discussion in one of any number of engagement “types” (debate, review, brainstorm, etc.). They might launch a group review of an attached MRI image, soliciting votes and comments about how to proceed. Only invited physicians would be able to participate.

- **Licensed Hardware manufacturers, as embedded “native apps” on hardware devices.** Mobile device manufacturers can be licensed to include *WeJIT* Creator capability as a native pre-installed app (similar to the pre-installed email program) on their mobile devices including smart phones, tablets, and hybrid devices such as the newly announced ***Samsung Galaxy Note***. Depending upon the choice of licensed hardware manufacturer, an exclusivity window may be appropriate.
- **Licensed to CDM Platform providers.** CDM providers already provide a plethora of components that fall under the broad term of “collaboration.” However, these platforms tend to provide document sharing, analytics and other functions to help “manage” a broader definition of collaboration components. Additionally, these platforms are typically complex, requiring significant IT support and training. In contrast, embedded *WeJIT* creation and sharing capabilities will allow existing CDM end-users to quickly generate specific collaborative conversations and decision-making capability around other existing components, without the need for added complexity and training.

Collaborize Classroom

Collaborize Classroom (www.CollaborizeClassroom.com) is one of 4 applications built on the *Collaborize* platform (the other 3 addressing enterprise, non-profits and civic engagement). Collaborize Classroom is a free, easy-to-use, cloud-based tool to extend and deepen classroom discussions; students and teachers love using it. Teacher-launched Collaborize Classroom sites around the world have been growing rapidly (average monthly growth of approximately 25%). Since the official launch in January of 2011, well over 35,000 individual teachers have launched Collaborize Classroom sites around the world as of September 2012.

During this period, our platform has already delivered 2 million topic-based lessons to students, and continues to grow. While we have identified multiple revenue streams from the product, it ultimately is designed to save schools, districts and teachers substantial time and money, while significantly enhancing the education process for students, we have focused thus far on building up our base of educators who are successfully

launching and using Collaborize Classrooms for their blended-learning needs. We have designed and test-marketed “Premium” versions of Collaborize Classroom for Campus and District implementations. Depending upon available resources and timing, we plan on beginning sales of these Premium versions of Collaborize Classroom in 2013.

Collaborize Classroom is designed to work in conjunction with a revolutionary content library, a plug-in strategy for augmenting LMS functionality and as a direct channel connecting curriculum and content providers with their core audiences. Collaborize Classroom takes the best elements of iTunesR, Amazon, App Store, Ebay and Facebook and combines them with a unique blend of revolutionary education-oriented features, to create what teachers are describing as a “game changer” for education (see below).

Our main website for Collaborize Classroom (<http://CollaborizeClassroom.com>) contains a very comprehensive overview of our platform, including fairly granular elements (see Features). It is worth watching the 4-minute "What is Collaborize Classroom?" video on the Resources Link (<http://www.collaborizeclassroom.com/resources>).

INDUSTRY BACKGROUND FOR COLLABORIZE

Following the creation and popping of the Internet “bubble” in 2000-2001, in most cases, it was no longer a viable business model just to “capture eyeballs.” As the industry matured into a Web 2.0 universe, more Internet applications had to have a purpose and a profit model—they had to demonstrate the path to being “real” businesses. Many, if not most, Web 2.0 applications are rooted in building active participation in these website applications by website visitors. The most successful of these businesses have first grown their base of participants and subsequently implemented monetization strategies. Many have been developed and are growing productively. Some are revenue driven and others are still not.

MARKET OPPORTUNITY FOR COLLABORIZE

With our Collaborize product, we believe that we may have identified a market need in the general area of social networking with user-generated content, and we believe that we have developed an offering responsive to that need. Collaborize is positioned to be part of a larger Company mantra of “*social networking with purpose*,” as a means of distinguishing from other social networking sites which offer individuals widespread connectivity with others, while not providing much, if any, additional purpose. The Collaborize platform is also positioned as a tool to enable group decision-making. The user experience is designed to be very user-friendly and simple to use.

As noted above, our Collaborize Classroom product has achieved an encouraging amount of traction within the education market, a multi-billion dollar market that includes learning management systems (LMS) and student information systems (SIS). We

believe that our unique offering, which is based on extending “structured discussions” from traditional classrooms to private online sites, provides us with a significant opportunity to fill a market need that is not currently addressed. We are devoting resources to enhancing deployment and adoption of this learning platform, which we believe is the precondition to optimizing monetization. The unveiling of our “Level 2” Collaborize Classroom Library further exploits what we see as significant advantages of our platform over competitors in the field.

In addition to Collaborize Classroom activities, we are still supporting our other implementations of Collaborize in non-education vertical markets. We estimate that there are 1.1 million nonprofit organizations (including schools, environmental groups, alumni organizations, service clubs, etc.) in the United States alone, which could benefit from the use of our Collaborize NPO application.

Another application built on the Collaborize platform is *Democrasoft Town Hall Online*, which permits politicians and officeholders engage and maintain communication with their voters and contributors, online, 24/7. We believe that civic engagement is a potentially fertile market for Collaborize.

All Collaborize sites can be customized with each client’s logo, colors, and images. Thus, while all Collaborize sites will clearly have structural commonality, no two sites will necessarily appear identical. For instance, it is possible that the appearance difference may permit two candidates for the same office to each use Collaborize in the same election.

COMPETITION

Collaborize Classroom has a number of competitors, some of which have greater resources, greater installed bases and broader or deeper offerings than Collaborize Classroom. However, we believe that our topic-centric architecture, cloud-based strategy, unique structured discussion “topic types” and pending patents will provide us with significant competitive advantages. Of course, the fact that our Level 1 product is available free of charge is also a competitive advantage. To the extent that our monetization strategy includes sponsorships, we are competing with all other companies that advertise on the internet. However, we believe that we have certain competitive advantages arising from our monetization strategies and from the stickiness of our sites, though there can be no assurance that we will be successful.

There are a number of competitors for the other Collaborize products, ranging from the U.S. mail to Google Groups. The level of competition differs somewhat with the version of Collaborize applied to the particular vertical market. There are “enterprise” solutions that compete in the business world which offer a host of services that go beyond the core Collaborize competencies. However, these are primarily not “cloud-based,”

require IT staff to install and maintain, and tend to be much more expensive than any of the current Collaborize offerings.

Perhaps the greatest competition for our platform in the non-education workplace comes from the ability to “Reply All” on email communications, since email has long been entrenched as a model for group communications. However, we believe that our platform can actually reduce the amount of time spent doing email while simultaneously helping groups with a common purpose accomplish more in a shorter period of time.

Google Groups lacks much of the functionality of Collaborize (though it is free) and “reply all” is a very crude tool for group decision-making if the group exceeds three or four. Other competitors offer various subsets of our functionality and widely varying price ranges. We suggest that interested parties visit www.Democrasoft.com and compare its functionality with that of other offerings in this space.

SALES & MARKETING

We market our Collaborize products both directly through our sales force and indirectly through the efforts of affiliates, partners, licensees and content providers, who receive fees or a portion of revenues where appropriate. Our marketing activities include making liberal use of both social media avenues (such as Facebook ads, Twitter feeds, blog campaigns and webinars), and traditional marketing channels (such as paid advertising, story placements and CPA (cost-per-action) campaigns. Traditional public relations activities and participation in industry events complement these other marketing activities.

Marketing and Sales of Democrasoft’s *WeJIT-based* capabilities will generally fall into 2 categories: (1) business development-centric for the development of licensing deals and associated revenues, and (2) Traditional marketing activities, for the launch, promotion and expansion of *WeJIT-based* usage and associated revenues.

Under this licensing model, Democrasoft will participate in various revenue-share arrangements with its licensees and resellers (including platform providers and e-Publishers). Additionally, the company may employ qualified outside contractors to maximize lead identification and engagement, as needed.

With regard to (2) Traditional marketing activities, Marketing activities are based upon the following Value Proposition and Hypothesis:

WeJITs deliver value to users by providing a simplified, light-weight way to engage an audience or group in a discussion or collaboration that leads to specific decisions and/or outcomes.

Because *WeJITs* can provide value in an almost unlimited set of circumstances, the company will initially test a variety of public and private vertical markets for receptivity and response to *WeJIT* messaging regarding its core value proposition.

Some of the vertical markets targeted for initial marketing and market testing include:

- Education (for the use of *WeJITs* to create portable “Topic-based Lessons”) - Clubs and Associations
- Civic Engagement (governmental, non-governmental, community, grass-roots, etc.; e.g. TownHall Online and related *WeJITs*)
- Non-profit Organizations
- Music
- Entertainment
- Sports
- Social Networks
- Bloggers

Testing Philosophy:

Market testing and iterating/pivoting quickly will be the key to finding the paths that gain market traction in the shortest amount of time. This will include testing various channels, assessing the channels, understanding the efficacy and then scaling based on the successes attained. Also, partnering with other organizations that can benefit from mutual marketing activities will leverage the strengths and assets of both.

A key marketing strategy within the various vertical markets will be the company’s own creation of various vertical-centric *WeJITs* on topics of interest within each vertical. These will be deployed within each given vertical, utilizing key influencers to initially publish, publicize, replicate and promote the various *WeJITs*, providing a launch pad for individual *WeJITs* that may catch the attention of vertical audiences and lead to further participant distribution of the *WeJITs*.

Once *WeJIT* tests show market traction, we will expand our traditional and digital footprint rapidly based on a content creation and discovery strategy (including activation, retention and referral strategy phases) that will require rapid brand deployment within the new verticals by:

- Minimizing the time to engagement via influencers and media sources within specific verticals.
- Creating multiple touch points for a potential customer to “discover” our lead and secondary products.
- Being seen as a technology savvy company that is well versed in new technology and communications platforms.
- Back channel creation for engagement with clients and customers for support, education and content distribution (activation, retention and referral strategies as well).

- Search Engine Optimization benefits that create back links and build site authority, which in turn will create a higher organic ranking in the search engines.
- Partner engagement to rapidly deploy our technology through trusted sources.

Separate from the focus on the vertical markets and related activities described above, the company will eventually create a major, public, coordinated *WeJIT* launch campaign designed to maximize public awareness of the *WeJIT* brand, *WeJIT* capabilities, various *WeJIT* launch locations and mobile versions.

The Company has already begun its licensing-related activities. Its current plan is to initially focus on licensing activities (integration of *WeJIT* and other Collaborize platform components into existing platforms, applications and products, including e-Publications), which are dependent only on minimal technology development and business development resources.

PATENTS & TRADEMARKS

We have applied for multiple patents on a number of unique components of our Collaborize platform, as well as for our Level 2 capabilities and structures and for our WeJIT product. If these patents are issued, we believe that they may offer an important competitive advantage. There can be no assurance that patents will be issued or that, if issued, they will survive litigation challenge.

For the past two years we have engaged in a process of disposing of non-core intellectual property which the Board of Directors has determined to be inapplicable to the Company's new area of focus. The non-core intellectual property generally relates to network optimization techniques. After attempting to market the Company's patent portfolios directly, we determined that the most appropriate marketing channel was a well-known intellectual property auction house, ICAP/Ocean TOMO. Through that company's auction process, we have marketed and, outside the auctions themselves, sold during 2011, patent portfolios representing the vast majority of the value in those non-core portfolios. To date, we have realized net proceeds of approximately \$75M total from all licensing and sale of our legacy patents, between 2005 and 2011. We do not believe that there will be any other material amounts forthcoming from these activities related to our original legacy patent portfolio.

Since 2010, we have filed 7 new patent applications related to various aspects of our Collaborize platform and its capabilities (including WeJIT-related). These patent applications are all currently pending, although we expect to receive a number of office actions in 2012.

RISK FACTORS

Our business is subject to some risk factors common to most businesses (dependence on key employees, for instance). Among the risk factors we face are the following:

1. Key Personnel. We are dependent on the continued services of Richard Lang, the inventor or co-inventor of all the patents we own, the originator of the Collaborize and WeJIT product ideas and the person who has guided the Company for almost 22 years. While we do have others who can perform some of his services in the event of his unavailability, we would be adversely affected if Mr. Lang were unable to perform his duties for any extended period of time.

2. Intellectual Property. There can be no assurance that the Company's current patent applications will be granted, or that if granted, they will be enforceable against others. Nor is there any assurance that the Company's remaining legacy patents, which are related to media delivery over networks, can be further monetized.

3. Technological Change. We believe our patents and pending patent applications cover important elements of our business and technology. If technology trends were to change in a way which renders our technology obsolete, our patents could have little value.

4. New Product Niche and Competition. The concept of Web2.0 collaboration software is a relatively new product niche, and it may take customers some time to become familiar enough with its benefits to understand the value proposition involved. Other vendors have, however, seen the potential value and created products which have some of the same functionality as Collaborize; some of those products are freeware. We cannot assure that potential customers are either ready to appreciate the value in Collaborize or that they will not prefer the offerings of others.

5. Collaborize. We have undertaken a new software initiative which is vulnerable to the risks inherent in any startup enterprise - dependence on key personnel; risk of market shifts; possibility of infringing the intellectual property of others; the risk of intense competition or misjudging the market, etc. We are taking prudent steps to minimize those risks, but risks are inevitable in a start-up context.

6. Lack of adequate operating capital. While the company has historically been successful over the past 20+ years in raising the capital necessary to sustain its operations in some form during times where revenue was sparse, there can be no guarantee that it will be able to continue this trend. In the absence of adequate operating capital, the company might be forced to limit its operations to core, essential capabilities necessary for the monetization of its assets in any number of forms, including asset liquidation in a worst-case scenario.

PROPERTY

We presently occupy approximately 3,567 square feet of office space in Santa Rosa, California, under a lease that expires at the end of January, 2013, which we may extend for an additional term if desired. The current lease provides for rent of approximately \$8,174.59 per month and may be terminated earlier at various times without significant penalty. We believe that our current facility is suitable and sufficient to accommodate our operating needs for the foreseeable future.

LEGAL PROCEEDINGS

We are not aware of any material legal proceedings pending or threatened against us.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We presently expect to hold an Annual Meeting of Stockholders in late fall of 2012, for the purpose of electing a Board of Directors.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Since December 31, 2001 our common stock has been traded on the NASDAQ OTC:BB (Over the Counter Bulletin Board pink sheets) under the symbol “BRST” (or “BRST.PK”). On April 27, 2010, in conjunction with our name change to Democrasoft, Inc., we began trading under the ticker symbol DEMO.

In January 2002, we elected to deregister our stock under S.E.C. Rule 12g. The company’s common stock continues to trade on the “Pink Sheets” in accordance with the provisions of Rule 15c2-11.

The following table sets forth the closing high and low bid prices of the Common Stock for the periods indicated. These prices are believed to be representative inter-dealer quotations, without retail markup, markdown or commissions, and may not represent prices at which actual transactions occurred.

2010	High	Low
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1st Quarter	\$.35	\$.11
2nd Quarter	\$.35	\$.25
3rd Quarter	\$.19	\$.12
4th Quarter	\$.18	\$.11
2011	High	Low
-----	-----	-----
1st Quarter	\$.23	\$.12
2nd Quarter	\$.22	\$.15
3rd Quarter	\$.25	\$.17
4th Quarter	\$.22	\$.16

The number of holders of record of the Company's \$.00001 par value Common Stock at December 31, 2011, was approximately 247. The closing bid price of our stock was \$.17 on December 30, 2011.

DIVIDENDS

No dividends were declared or paid during 2011.

RECENT SALES OF UNREGISTERED SECURITIES

For a description of unregistered securities sold by the Company to certain directors in reliance on the exemption set forth in Section 4(2) of the Securities Act of 1933, see CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS—Non-lapse Restriction Stock Purchases, below.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of the financial condition and results of operations of the company should be read in conjunction with our Year-End Financial Statements for

2011, currently posted on our web site, www.democrasoft.com. Please note that the 2010 and 2011 Financial Statements are audited, and Summary pages are included in this report. A complete copy of our audited financials for 2011 can be found on our website: www.democrasoft.com.

We are primarily engaged in the business of distributing proprietary software which allows users to connect and interact online so that they can identify, refine and react to important questions and ideas. Our principal executive offices are located in Santa Rosa, California

2011 was primarily devoted to maximizing the deployment of free access to the Company's cloud-based software within the education sector, so that monetization can occur in the future. Except for the receipts from a one-time customer-funded study and a nonrecurring monetization of intellectual property discussed below, there were only nominal revenues during 2011. We caution interested parties not to extrapolate trends from any two-year comparison. Our interest income was substantially unchanged at \$23,784. Our gross income is not comparable from year-to-year, as it results from nonrecurring one-time transactions, which cannot be predicted or extrapolated. The Company did receive net proceeds of approximately \$ 750,000 in the first quarter of 2011 from additional sales of non-core intellectual property and \$400,000 during 2011 related to a customer-funded market test; such revenues are non-recurring and readers are encouraged not to extrapolate from such activity.

During 2011, our general and administrative operating expenses were \$3,817,094 including all legal fees, up from \$1,77,896 in the prior year, primarily because of increased activity related to the deployment of the Company's products. Finally, we incurred \$751,685 of research and development costs (including engineering, sales and marketing and general administrative expenses related to research and development) in connection with the development and marketing of the Collaborize social networking platform; this represented a significant decrease from the prior year's \$1,975,455 reflecting a significant shift from research and development to sales and marketing. We are not capitalizing any of our research and development costs. Taxes on income were nominal in each year.

As a result of the increase in expenses, the Company incurred a loss of \$3,390,078 in 2011 compared to a loss of \$3,426,843 in 2010. The loss was \$.08 per share in each year.

Reflecting the higher expense levels and substantial operating loss, as of December 31, 2011, the sum of our cash on hand and investments in US Treasury securities was \$872,605 compared to \$3,994,003 as of the end of the prior year. At December 31, 2011, we lacked sufficient capital resources to continue our operations at their then current pace, and subsequent to the end of the year we made staff and payroll adjustments to reduce current cash demands. We are continuing to pursue a variety of monetization alternatives as well as other sources of capital. In June, 2012, we closed a bridge loan transaction providing approximately \$500,000 of funding, of a total of \$1M

authorized by our Board of Directors. We are pursuing the placement of the remaining \$500,000 of authorized bridge funding; however, there can be no assurance our efforts will be successful.

Our success will depend on the success of our Collaborize platform and related products. While we are optimistic that the enthusiastic reception our Collaborize Classroom product has received from the education community will translate to successful monetization initiatives, there can be no assurance that Collaborize Classroom product will be successful. We are optimistic that our WeJIT product will continue to meet with an enthusiastic response from the publishing industry and other potential markets, though we can offer no assurance of this.

We are presently operating at a reduced staff which we believe will enable us to operate at least until the end of 2012 and to take advantage of our various business opportunities and other activities as described in the attached Chairman's Letter. While there can be no guarantees or assurances of our likelihood of success, we believe that we are currently maximizing our resources toward that end.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited financial statements for 2011 are attached .

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Our independent auditors for fiscal year 2011 were DZH Phillips, LLP of San Francisco, CA. There were no disagreements with our auditors over any items.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, key employees and Directors as of December 31, 2011 and their ages as of that date, are as follows:

Name	Age	Position
Richard A. Lang	59	Chairman, President, Chief Executive Officer and Chief Financial Officer
Eric H. Walters	56	Vice President, Operations

Colton Briner	35	Vice President and General Manager
Mark Kithcart	46	Vice President of Marketing
John Kilcullen	52	Director
Brian Murphy	55	Director
Barry L. Ritholtz	50	Director
Barry Reder	67	Director
Rick Smolan	62	Director

The following sets forth biographical information as to the business experience of each Executive Officer and Director of the Company:

Richard A. Lang has been Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer since 2001. From September 1997 through the end of May 2000 he served as President and from September 1997 through September 2000 he served as Chief Executive Officer. From January 31, 1997 through August 1997, Mr. Lang served as one of our directors. Mr. Lang served as our Chairman of the Board and Treasurer until January 31, 1997. He had served as Chairman of the Board, Chief Executive Officer and Treasurer from December 1993 to September 1995 and as a Director since August 1992. He has been a Director of our subsidiary, Explore Technology, Inc., since February 1990, and served as its President from February 1990 to August 1992. Mr. Lang has presided over the development of our patent portfolio. He was the inventor of record for the bulk of our legacy intellectual property. Mr. Lang was also a co-founder of Go-Video, Inc., Scottsdale, Arizona and co-inventor of Go-Video's patented dual-deck VCRs. Mr. Lang received his A.A. degree in Communications with a Foreign Language minor from Scottsdale Community College in 1973.

John Kilcullen has been a director of the Company since September, 2011. As an accomplished CEO and award-winning entrepreneur, Kilcullen is best known for creating and publishing the popular “For Dummies” brand of how-to books, which has gone on to sell over 250 million copies in 29 languages generating over \$2 billion in retail sales and numerous New York Times, Wall Street Journal and BusinessWeek bestsellers. Under his leadership, IDG Books Worldwide grew from \$0 to \$240 million in 10 years. He took the company public in 1998 and sold it three years later to John Wiley and Sons. As President and Publisher of 115 year old Billboard magazine, Kilcullen architected the turnaround of a legacy music brand and subsequently was promoted to run the music & literary, as well as the film & performing arts groups including The Hollywood Reporter, Backstage and CineAsia. Kilcullen has received numerous awards including Ernst and Young’s 1999 Entrepreneur of the Year. He was a member of Advertising Age’s 1995 Marketing 100 award and was recognized as a key influencer on FOLIO’s annual Folio 40 list and MIN Magazine’s 21 Most Intriguing People in 2006. He was also named a

recipient of the Irish America Business 100 award in 1999 and 2003.

Kilcullen has been profiled in Forbes, People, The New York Times, San Francisco Chronicle, USA Today and in two books: *Lead Like an Entrepreneur* and *The Rebel Rules*. He has appeared on CNBC, CNN and popular talk shows in Australia, Canada, Singapore and the UK.

Brian Murphy has been one of our directors since January 1997. He is a consultant with Mazars O.J. Kilkenny in Dublin. The firm provides a wide range of services to their clients, consisting of major international entertainment artists, covering all areas of financial management and audit and accountancy advice. Mr. Murphy is also involved with a number of companies in the property and entertainment business. Mr. Murphy received a Bachelor's Degree in Commerce from Dublin University and became a fellow of the Institute of Chartered Accountants in Ireland, England and Wales. Mr. Murphy is also an accredited mediator with CEDR (Centre for Effective Dispute Resolution).

Barry L. Ritholtz has been of our directors since March 8, 2002. Mr. Ritholtz performed his graduate studies at Yeshiva University's *Benjamin N. Cardozo School of Law* in New York, graduating Cum Laude. Mr. Ritholtz is presently Chief Investment Officer at Ritholtz Capital Partners, a New York hedge fund. Mr. Ritholtz is CEO and Director of Equity Research at *Fusion IQ*, an online quantitative research firm. For the first time, the company is making its institutional grade research product available to individual traders and investors. Most recently, Mr. Ritholtz was Chief Market Strategist for Maxim Group, a New York Investment bank, managing over \$5 Billion in client assets. Mr. Ritholtz is a frequent guest on CNBC, Bloomberg, CNN, Fox, and PBS. His perspectives on the markets are quoted regularly in the Wall Street Journal, New York Times, Barron's, Forbes, and other print media. Beyond weekly commentary and published articles, for the past several years Mr. Ritholtz has been writing *The Big Picture* (<http://www.ritholtz.com>), an informal economics weblog covering diverse topics, including investing, digital media, geopolitics, film and music industries, and more.

Barry Reder has been one of our directors since January 8, 2008.. Formerly a partner in the San Francisco law firms of Coblenz, Patch, Duffy and Bass (1993-2006) and Dinkelspiel, Donovan and Reder (1976-1993), Mr. Reder, practiced corporate and securities law for 37 years before retiring in 2006. He is an independent business consultant. Mr. Reder has been a stockholder for a number of years and became a consultant to the Company late in 2007. He previously served on the Boards of HS Resources, Inc (NYSE) and Real Goods Trading Corporation (OTC/PSE) before those companies were sold.

Rick Smolan has been a Director of the Company since December, 2010 and a shareholder for a number of years. He is the CEO of Against All Odds Productions, Inc., which creates and produces sponsored global scale events which have been featured on media as diverse as Fortune Magazine and The Oprah Winfrey Show. He is also a frequent lecturer at Technology, Entertainment and Design (TED) events.

Eric H. Walters, a key employee, has served as our Vice-President of Operations since October 2001. He is responsible for our administrative operations as well as intellectual property management. From March 2000 to October 2001, Mr. Walters served as the Manager of our Intellectual Property Department. From March 1999 to March 2000, he was our Manager of Inside Sales. Mr. Walters has been associated with us since our formation in 1990. He held the position of Director of Corporate Communications during 1991 and 1992. Prior to joining us in 1990 and again in 1999, Mr. Walters worked at Intel Corporation in Press Relations for the Digital Imaging and Video Division. Mr. Walters is the co-inventor of record for several patents and pending patent applications

Colt Briner is the Vice President and General Manager of Democrasoft. He has been with the Company for over 9 years, having been the Office Manager from 2003 through 2004, the Operations Manager from 2004 through 2006, the Director of Operations from 2006 to 2009 and the VP and General Manger from 2009 to present. In addition to his Democrasoft duties, Mr. Briner is also a director at the Virtual Country Foundation, a California-based non-profit exploring and developing ways to use technology to improve citizen participation in the democratic process. Mr. Briner has studied Business, Economics and Japanese at University of Pacific, Kansai University and Willamette University, where he received degrees in Business Economics and Japanese in 1999. Before joining Democrasoft, he worked as a teacher and as proprietor of an electronics company.

Mark Kithcart serves as the company's VP of Marketing and joined the Democrasoft team in late 2009. He has over 17 years in leadership, management and marketing for major public companies such as Agilent Technologies and Bechtel Corporation, as well as multiple start-up companies. Most recently, He was the Director of Marketing for an Internet start-up that became one of the most trafficked online sites in the world within 12 months. At Democrasoft, Mr.Kithcart oversees and is responsible for all online and offline marketing efforts and building solid relationships with users the Collaborize offerings. He has a degree in Engineering from Cal Poly and is a graduate of USF's MBA program.

EXECUTIVE COMPENSATION AND OTHER MATTERS.

Summary of Compensation. The following table sets forth all compensation earned or paid for services rendered to us in all capacities by our Chief Executive Officer, Vice President of Operations and Vice President and General Manager for the fiscal year ended December 31, 2011. No other executive officer earned more than \$100,000 in salary and bonus for the fiscal year ended December 31, 2011.

Summary Compensation Table

Name and Principal Postion	Year	Salary	Other Compensation
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Richard A. Lang, Chairman of the Board President and CEO	2011	\$270,000	\$ 7,598 (1)
	2010	\$270,000	\$ 7,589 (1)

Eric H. Walters Vice-President of Operations	2011	\$ 100,500	\$ 0
	2010	\$ 90,000	\$ 0

Colton Briner V.P. & GM	2011	\$129,500	\$ 0
	2010	\$ 122,000	\$ 0

Mark Kithcart Vice-President of Marketing	2011	\$130,500	\$0
	2010	\$120,000	\$0

(1) Represents monthly auto allowance payments made to Mr. Lang totaling \$7,598 and \$ 7,589 for the years, 2010 and 2009, respectively.

During 2011 the Company granted non-qualified stock options to individuals who were material to the success of the new software initiative, which has become Collaborize. Originally a pool of options to purchase 4,000,000 shares was created in 2009, and options to purchase 335,000 shares and 446,00 shares were granted in 2010 and 2011 respectively. A total of 585,450 options were cancelled during the same period. All options in the pool, with the exception of four options granted to four Board of Directors for \$.207, were to be granted at an exercise price of \$.25 per share, notwithstanding that the market price of our common stock at the time was generally in the area of \$.11; the Board of Directors believed that only when the stock price exceeded \$.25 per share would the effects of Collaborize, the new software initiative, be apparent. In addition, the options in this pool would be exercisable only upon the earlier of achievement of certain individual milestones or five years from the date of grant (but only if the optionee was still employed by the company). Under this plan, the following persons received option grants (subject to the milestones):

Richard Lang (1,900,000 shares), Colton Briner (700,000 shares) and Eric Walters (150,000 shares). Approximately 9 other individuals received option grants from this pool in 2009, aggregating approximately 1 million shares and 13 individuals received grants during 2010.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of December 31, 2011, with respect to beneficial ownership of our common stock by each person who beneficially owns more than 5% of our common stock; each of our executive officers; each of our Directors; and all executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. To our knowledge, except under applicable community property laws or as otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned. The applicable percentage of ownership for each stockholder is based on 43,490,480 shares of common stock outstanding on December 30, 2011 together with applicable options and warrants for that stockholder. Shares of common stock issuable upon exercise of options and other rights beneficially owned are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and other rights, but are not deemed outstanding for computing the percentage ownership of any other person.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Outstanding

Executive Officers and Directors -----		
Richard A. Lang	7,796,654 (1)	16.41%
Brian Murphy	1,804,341 (2)	4.13%
Barry L. Ritholtz	1,000,000 (3)	2.29%
Barry Reder	1,571,133 (4)	3.60%
Colt Briner	835,000 (5)	1.89%
Eric Walters	832,166 (6)	1.90%
Rick Smolan	530,030	1.22%

John Kilcullen	400,000	0.92%
Mark Kithcart	50,000 (7)	0.11%
All executive officers and directors as a group (4 persons):	14,819,324	30.13%
5% Stockholders		
Gordon Rock	8,119,838 (8)	18.67%

(1) Includes 3,065,255 shares of our common stock in the name of the Lisa Walters and Richard Lang Revocable Trust, plus 875,000 shares purchased by the Trust from former Board Member Gordon Rock in December 2007, and an option, which have partially vested, to purchase 1,900,000 shares of our common stock at \$0.25 per share (vesting is based on the achievement of various milestones tied to the success of the Company's Collaborize-related activities). Also includes 100,000 shares transferred to the family's irrevocable trust fund in 2002, an additional 28,000 shares transferred in 2005, and an additional 20,000 shares transferred in 2006. Certain warrants to purchase 225,000 shares of common stock at \$1.56 per share expired on May 24, 2012.

(2) Includes a warrant, which expired on May 24, 2012, to purchase 150,000 shares of our common stock at \$1.56 per share.

(3) Includes a warrant, which expired on May 24, 2012, to purchase 150,000 shares of our common stock at \$1.56 per share.

(4) Excludes shares beneficially owned by his adult children, as to which he has disclaimed beneficial interest.

(5) Includes a warrant, which expired on May 24, 2012, to purchase 25,000 shares of our common stock at \$1.56 per share. Also includes an option, which have partially vested, to purchase 700,000 shares of our common stock at \$0.25 per share (vesting is based on the achievement of various milestones tied to the success of the Company's Collaborize-related activities).

(6) Includes 82,166 shares of our common stock in the name of Eric H. Walters. Also includes a warrant, which expired on May 24, 2012, to purchase 50,000 shares of our common stock at \$1.56 per share and an option, which have partially vested, to purchase 150,000 shares of our common stock at \$0.25 per share (vesting is based on the achievement of various milestones tied to the success of the Company's Collaborize-related activities).

(7) Includes an option, which have partially vested, to purchase 50,000 shares of our common stock at \$0.25 per share (vesting is based on the achievement of various milestones tied to the success of the Company's Collaborize-related activities).

- (8) Includes 3,877,350 shares owned by Mercer Management and 5,252,488 owned by Gordon Rock

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The Company pays its directors an annual stipend of \$30,000, without any additional per meeting or other fees; however, that stipend was suspended in January, 2012 and payment of \$105,000 on account of directors' fees has been deferred without interest pending a change in the Company's financial condition.

Since January 1, 2009, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds \$60,000 and in which any director, executive officer or holder of more than 5% of our common stock, or an immediate family member of any of the foregoing, had or will have a direct or indirect interest other than compensation arrangements that are described in Executive Compensation and Other Matters, above, and the transactions described above and below.

Director Reder renders consulting services with respect to certain operational and day-to-day matters; such services are billed at Mr. Reder's usual and customary hourly rate. Mr. Reder provides these services as a consultant on matters which are not within the customary purview of a member of the Board of Directors. The Company paid Mr. Reder \$83,025 for such consulting services in 2011; since August 2011, Mr. Reder has agreed to deferral of one-half of the fees owed, pending a change in the Company's financial condition.

Non-lapse restriction stock purchases in **2011**

On January 13, 2011, the Company's Board of Directors authorized the sale to its newest Board member, Rick Smolan, of 400,000 newly issued shares of the Company's common stock. At the time of the Board's action, the stock was trading at \$.13 per share. The shares sold were burdened with both an investment representation and a perpetual right of first refusal pursuant to which Mr. Smolan is required to first offer the shares to the Company for a period of five business days at a discount of \$.158 from whatever price a third party offers before they can be sold to that third party. The purchase price for the stock burdened with that right of first refusal was \$.027, payable in cash.

On August 29, 2011, subject to Mr. Kilcullen's become a member of the Board of Directors, the Board authorized the sale to him of 400,000 newly issued shares of the Company's common stock. At the time of the Board's action, the stock was trading at \$.23 per share. The shares sold were burdened with both an investment representation and a perpetual right of first refusal pursuant to which Mr. Kilcullen is required to first offer the shares to the Company for a period of five business days at a discount of \$.28 from

whatever price a third party offers before they can be sold to that third party. The purchase price for the stock burdened with that right of first refusal was \$.048, payable half in cash and half by execution and delivery of a 107 month promissory note bearing interest at the applicable federal rate.

SUBSEQUENT EVENTS

Since December 2011, the Company has reduced its headcount and reduced its operating costs by more than 65%, in accordance with its revised business strategy, which focuses primarily on Collaborize Classroom and its new WeJIT platform.

On June 18, 2012, the Board of Directors repriced to \$.10/share, all employee options previously granted and issued at an exercise price of \$.25/share under the 2009 plan. This revision was made in recognition that the original strike price of \$.25/share reflected a desire to peg the value of employee efforts put forth on the new Collaborize platform as being additive to the cash value of Democrasoft shares at that time (approx. \$.20/share). In view of the fact that all Democrasoft activities as of June 18th were related only to post-Burst.com activities, the repricing more accurately reflects an appropriate option price to motivate employees and management.

On June 27, 2012, the Company announced the completion of a \$500,000 interim funding private placement with most of the securities being sold to existing investors. While the Board of Directors authorized a total of \$1 million in bridge financing under the terms described, the Company initially placed a total of \$500,000 of two year 10% convertible notes to fund current operations (as of August 1, 2012). Payment of the notes is secured by all of the Company's intellectual property. If all of the current notes and accrued interest are converted at the \$.08 conversion price, the Company would issue approximately an additional 7,000,000 shares of its common stock.

As of August 31, 2012 the Company's Collaborize Classroom platform has delivered in excess of 1.8 million individual topic-based lessons to students around the world. As of that date, there have been over 34,000 individual Collaborize Classroom sites launched by teachers world-wide. World-wide Collaborize Classroom launches in March, April and May of 2012 averaged over 450% higher each month than during those same months in 2011.

On August 1, 2012, the Company completed the first iteration of its new, instant and portable collaboration product, "WeJIT." This product, built on the Collaborize platform, is designed to increase the scope of the market that Collaborize functionality appeals to and ultimately to expand the revenue generating potential of the Company. On August 20, 2012, the company announced the world's first two-way interactive eBook, which contains embedded WeJITs that make it possible for the book's author and readers to interact with each other from inside the e-Book.

During 2010, the Company's accounting firm, Smith, Lange & Phillips of San Francisco merged with another firm to become DZH Phillips LLP.

DEMOCRASOFT, INC.

Dated: September 21, 2012

By /s/ Richard A. Lang

Richard A. Lang

Chairman, Chief Executive Officer and Chief Financial Officer

DEMOCRASOFT, INC

AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2011 and 2010

INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders of

Democrasoft, Inc. and Subsidiary

Santa Rosa, California

SUMMARY FINANCIALS TO FOLLOW

Complete Audited Financials can be found on our website: www.democrasoft.com