

Democrasoft, Inc. (formerly known as Burst.com, Inc.)

Annual Report

For the Fiscal Year ended: December 31, 2010

Delaware

84-1141967

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(State or Other Jurisdiction of  
Incorporation or Organization)

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(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 31, 2010, there were 42,600,480 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 April 21st, 2011 was \$0.17 per share.

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

DEMOCRASOFT, INC.  
2010 ANNUAL REPORT

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*Democrasoft®; Collaborize®; Your Input Counts™; Democrasoft Town Hall Online™; Collaborize Town Hall Online™; The Wisdom of We™; Collaborize Classroom™; Collaborize Workplace™; Collaborize NPO™; 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 20 year-old public company that two years ago began reinventing itself as a social networking company; it now has four crowd-sourcing software offerings developed on a common proprietary platform. The Company's lead offering, Collaborize Classroom<sup>®</sup>, currently has the most market traction and therefore the Company's greatest focus. It 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 April 30th, 2011, teachers had launched more than 3,500 sites and there were more than 14,000 registered users on the Collaborize Classroom network.

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, whenever they choose to after hours and participate in an online discussion,

learning from each other while addressing the question or discussion prompt. Student replies are compiled and posted in real-time on the “Results” page. Since its launch in October 2010, teacher and student response to Collaborize Classroom has been overwhelmingly positive.

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 20 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 been developing “Level 2” of the Collaborize Classroom platform, which will provide additional capabilities that the Company believes are not available anywhere else and which it also believes will substantially enhance the platform’s capabilities and competitive advantages. Although there can be no assurance thereof, this enhancement is scheduled for a “soft” launch in early July 2011 and a large-scale public launch in August 2011.

The Company’s management has been consistent for many years—CEO & CFO Richard Lang, Vice President of Operations Eric Walters and Vice President & General Manager Colt Briner have been with the Company for more than 45 years in the aggregate.

## BUSINESS

For years, the Company successfully licensed its intellectual property in the field of network optimization (its prior business). During the past approximately two years, the Company has been developing Democrasoft’s adaptable crowd-sourcing 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 of 2010. Since then, the Company has refined the basic platform and provided it in four different applications, each built on the Company’s core Collaborize platform.

There are a number of features in Collaborize that the Company considers unique in the industry; it has filed U.S. Patent applications to protect these unique features. All four versions of the current Collaborize platform contain a “Results and Resources” page so that users can carry outcomes and decisions to the next level and actually implement them, providing a level of “outcome” not usually found in crowd-sourcing applications.

The flash videos located at [www.democrasoft.com](http://www.democrasoft.com) should assist the reader in understanding the Company's core social networking business and various offerings.

The four 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, the Company is allocating most of its resources to this offering and deferring expenditures of substantial resources to the following three products which, with greater resources, it can also 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.** This application of the Collaborize platform was developed late in the most recent election cycle and was used only by one candidate in the last election cycle (he won!); however, the Company believes that both candidates and incumbents will be interested in having effective real-time dialogue with constituents and 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.

**COLLABORIZE CLASSROOM** - 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 find extremely easy and enjoyable. Information about Collaborize Classroom can be found at: [www.CollaborizeClassroom.com](http://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 market for free and low-cost tools to enhance educational effectiveness at reduced cost 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 YouTube to illustrate a point before posing a question. The questions can then be in one of four currently available formats: yes/no (with a place to explain support for the answer), multiple choice, Vote or Suggest (a proprietary 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.

The Company believes that there are approximately 3.1 million teachers classrooms 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 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. An easy further expansion of the Company’s marketing activities is to colleges and universities, a market that the Company has not yet specifically addressed.

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, Teachers Without Borders, Kids-In-Need Foundation and others. Additionally, the company attends education industry events such as CUE (Computer Using Educators) and ISTE (International Society for Technology in

Education). Also, the Company utilizes an in-house staff of “outreach” professionals tasked with establishing relationships with state and district level decision-makers in education, both within government organizations and also within Non-Governmental Organizations. These relationships are designed to facilitate deployment of Collaborize Classroom at a district-wide and state-wide level, as a complement to out other marketing activities.

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 Alaska, Utah and Texas. 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 3,500, with our user count climbing from approximately 1,000 to approximately 14,000 (as of April 30th 2011). The Company has been experiencing a growth rate in the number of teacher registrations of approximately 34% per month during this time period.

The number of students currently (as of this report) 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.

The Company is pleased with the acceptance of this new teaching tool which was first introduced during the current school year, rather than before the school year when teachers would have had a chance to insert it into their lesson plans in an orderly way. For that reason, the Company believes that there will be a significant amount of registration/launch activity as the 2011-12 school year begins, particularly with the addition of the Collaborize Classroom “Level 2” capabilities.

The Company’s ticker symbol is DEMO (or DEMO.PK). Our offices are located in Santa Rosa, California.

## MONETIZATION

Because of our strategies for monetization, we have been devoting substantially all of our efforts towards increasing acceptance and deployment of Collaborize Classroom. We believe that as is the case with many, if not all, successful social networking platforms, adoption should precede monetization. We consider the details of our monetization paths to be highly proprietary up until they have been publicly announced. Once we have achieved critical mass, we believe that one or more of these monetization routes (which generally includes traditional banner ads, as well as sponsorships, certain valuable add-ons and premium versions) have a reasonable opportunity to be successful. We expect to start to focus on the monetization elements of our business before the end of the current calendar year.

## 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 we believe is not currently addressed. We are devoting most of our current 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 capabilities will further exploit 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.

We have created an internal division dedicated to making sure that every Collaborize customer has the support necessary to be successful with our product. We believe that our Customer Success Advocates will be material in helping our customers have the best possible experience with Collaborize, because we know that Collaborize will only be successful if our customers are successful.

## 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 banner ads or 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 Yahoo 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 mail 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 mail while simultaneously helping groups with a common purpose accomplish more in a shorter period of time.

Yahoo 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](http://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 three-person sales force and indirectly through the efforts of affiliates, partners and content providers, who will receive 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. Tradition public relations activities and participation in industry events complement these other marketing activities.

## 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. 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 \$750,000 and, at the date hereof, we have a sale pending involving substantially less than that amount. We do not believe that there will be any other material amounts forthcoming from these activities after closing of the pending transaction.

## 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 of many of the patents we own, the originator of the Collaborize product idea and the person who has guided the Company for almost 21 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 that rendered 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 that 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.

## 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 \$7,899.12 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 will hold an Annual Meeting of Stockholders on June 29th, 2011, for the purpose of electing a Board of Directors – See the Proxy Statement which is made available concurrently with this Annual Report.

## 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 (or DEMO.PK).

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.

2009	High	Low
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1st Quarter	\$.12	\$ .08
2nd Quarter	.24	\$ .10
3rd Quarter	.13	\$ .11
4th Quarter	.13	\$ .10
2010	High	Low
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1st Quarter	\$.35	\$ .11
2nd Quarter	\$.35	\$ .25
3rd Quarter	\$.19	\$ .12
4th Quarter	\$.18	\$ .11

The number of holders of record of the Company's \$.00001 par value Common Stock at December 31, 2010, was approximately 247. The closing bid price of our stock was \$ .11 on December 31, 2010.

## DIVIDENDS

No dividends were declared or paid during 2010.

## 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 in 2009, 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 2010, currently posted on our web site, [www.democrasoft.com](http://www.democrasoft.com). A complete copy of our audited financials for 2010 can be found on our website: [www.democrasoft.com](http://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

2010 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. There were only nominal revenues during 2010. In 2009 we had \$2,600,000 of gross income derived from the monetization of a portion of our intellectual property as we sold our DVR patent portfolio for \$2,300,000 and granted a license to one licensee. We caution interested parties not to extrapolate trends from any two-year comparison. Our interest income (other than the \$108,534 which we received during 2009 related to a tax refund) was down by approximately \$16,000 (to \$23,623), primarily because of lower prevailing interest rates on our Treasury Bills. Our gross income is not comparable from year-to-year, as it results from nonrecurring one-time transactions which cannot be predicted or extrapolated. However, the Company did receive net proceeds of approximately \$ 750,000 in the first quarter of 2011 from additional sales of non-core intellectual property; such sales are non-recurring and readers are encouraged not to extrapolate from such sales.

During 2010, our general and administrative operating expenses were \$1,477,896 including all legal fees, up from \$1,414,323 in the prior year, primarily because of increased activity related to the deployment of the Company's products. Finally, we incurred \$1,974,456 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 ramp-up of approximately \$1,350,000 from the

prior year's \$626,236 reflecting a significant increase in activity in all sectors. We are not capitalizing any of our research and development costs.

As a result of the substantial increase in expenses and the absence of any income, the Company incurred a loss of \$3,426,843 in 2010 compared to income of \$664,197 in 2009.

Reflecting the higher expense levels and substantial operating loss, as of December 31, 2010, the sum of our cash on hand and investments in US Treasury securities was \$4,354,003 compared to \$6,624,224 as of the end of the prior year. We believe that our cash reserve plus readily available monetization alternatives will enable us to sustain our current operations for the foreseeable future. We are continuing to pursue a variety of monetization alternatives as well as other sources of capital; 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 product has received from the education community will translate to successful monetization initiatives, there can be no assurance that our Collaborize product will be successful. Our US Treasury securities have laddered maturities less than one year. We believe that with our available cash resources as well as readily available alternatives, we have adequate cash resources to run our business beyond the end of this year.

#### FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited financial statements for 2010 are available at:  
<http://www.democrasoft.com/about/democrasoft-shareholder-relations.html>

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

Our independent auditors for fiscal year 2010 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, 2010 and their ages as of that date, are as follows:

Name	Age	Position
Richard A. Lang	57	Chairman, President, Chief Executive Officer and Chief Financial Officer
Eric H. Walters	54	Vice President, Operations
Colton Briner	34	Vice President and General Manager
Brian Murphy	54	Director
Barry L. Ritholtz	49	Director
Barry Reder	66	Director

Subsequent to December 31, 2010, Rick Smolan, 60, was elected to the Board of Directors and Mark Kithcart, was elected Vice President of Marketing.

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.

**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 shareholder for a number of years. He joined our Board of Directors in January 2011. 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 almost 8 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 an ESL teacher and proprietor of an electronics company, which he grew over 400% and later sold in 2002.

**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, 2010. No other executive officer earned more than \$100,000 in salary and bonus for the fiscal year ended December 31, 2010.

##### Summary Compensation Table

Name and Principal Postion	Year	Salary	Other Compensation
Richard A. Lang, Chairman of the Board President and Chief Executive Officer	2010	\$270,000	\$ 7,589 (1)
	2009	\$270,000	\$ 7,589 (1)
Eric H. Walters Vice-President of Operations	2010	\$ 90,000	\$ 0
	2009	\$ 90,000	\$ 0
Colton Briner V.P. & GM	2010	\$122,000	\$ 0
	2009	\$ 90,000	\$ 0

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

During 2010 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 3,978,450 shares and 335,000 shares were granted in 2009 and 2010 respectively. A total of 329,450 options were cancelled during the same period. All options in the pool 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, 2010, 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 42,600,480 shares of common stock outstanding on December 31, 2010 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
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Executive Officers and Directors		
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Richard A. Lang	7,796,654 (1)	16.72%
Brian Murphy	1,704,341 (2)	3.99%
Barry L. Ritholtz	900,000 (3)	2.11%
Barry Reder	1,471,133 (4)	3.45%
Colt Briner	835,000 (5)	1.93%
Eric Walters	832,166 (6)	1.94%
All executive officers and directors as a group (4 persons):	13,539,294	28.30%
5% Stockholders		
Gordon Rock	8,119,838 (7)	19.06%

(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, as well as warrants, which expire on May 24, 2012, to purchase 225,000 shares of common stock at \$1.56 per share and an option, which has not 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.

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

(3) Includes a warrant, which expires 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 expires on May 24, 2012, to purchase 25,000 shares of our common stock at \$1.56 per share. Also includes an option, which has not 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 expires on May 24, 2012, to purchase 50,000 shares of our common stock at \$1.56 per share and an option, which has not 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 3,877,350 shares owned by Mercer Management and 5,252,488 owned by Gordon Rock

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

During 2009, we loaned Barry Ritholtz \$46,000.00, bearing interest at 4% per year and secured both by his interest in the company and by assignment of amounts due to him from the company. That loan was fully repaid on January 3, 2010.

The Company pays its directors an annual stipend of \$30,000, without any additional per meeting or other fees. In December 2009 the Company elected to prepay to Directors Reder and Murphy the 2010 annual stipend as well as the 2009 stipend; Director Ritholtz received only the 2009 stipend during 2009 and has received the 2010 stipend during 2010. In December 2009 the Company elected to prepay Mr. Reder one-half of the 2011 stipend.

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 \$117,300 for such consulting services in 2010.

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

On January 13, 2011, the 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.

#### Non-lapse restriction stock purchases in 2009

On April 11, 2009 the Board of Directors authorized the sale to Messrs. Lang, Walters, Briner, Murphy, Reder and Ritholtz of an aggregate of 3,150,000 newly issued shares of the Company's common stock.. At the time of the Board's action, the stock was trading at \$.085 per share. The shares sold are burdened with both an investment representation and a perpetual right of first refusal pursuant to which the purchasers are required to first offer the shares to the Company for a period of five business days at a discount of \$.102 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 \$.018, payable 50% in cash and 50% by execution and delivery of a full-recourse promissory note due in eight years and eleven months. The notes bear interest at the Applicable Federal Rate fixed at the date of execution of the notes. Richard Lang purchased 2,000,000 of those shares, Eric Walters purchased 300,000 of those shares, Colt Briner purchased 100,000 of those shares and each of the three non-officer directors purchased 250,000 of those shares.

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: April 21st, 2011

By /s/ Richard A. Lang

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Richard A. Lang

Chairman, Chief Executive Officer and Chief Financial Officer