



Chairman's Letter

September 26, 2012

Dear Shareholder,

The attached Annual Report for 2011 is being distributed later than usual this year, in large part because there have been a multitude of uncertainties (both positive and negative) that we wanted to include in the report. Thus, one of the things you will notice in the Annual Report is that we have extended the material to include many important developments beyond December 31, 2011, which include our creation and public release of an important innovation in collaboration that we call the WeJITTM. We have chosen to take a great deal of information that was contained in our confidential business plan for WeJIT and make it available to you in this Annual Report, in order that you might better understand what a WeJIT is, why we have placed so much focus on it, and finally, where we see its potential value (both to the company and in the world in general).

In mid-2011, we set out to raise venture capital money to finance the expansion of our Collaborize Classroom business. What we learned too late in the process is that our status as a small “public” company was a deal-killer for the VC investment model. Thus, in mid-December, after months of negotiation with VC investors (and after some harsh last minute valuation maneuvers on their part), rather than continue down a path that we believed was taking unfair advantage of our shareholders (and burning our limited resources), we decided to raise a small amount of bridge capital mostly from existing shareholders (who had to be “accredited” investors), in order to sustain our operations while we determined an alternate course for securing our financial future. This small amount of working capital, while at a low valuation, minimized dilution because of the limited amount raised.

Another reason we chose to limit this bridge financing in May to \$500,000 (out of a total of \$1MM approved by our Board of Directors), is that we have been anticipating the closing of at least one business arrangement with a Fortune 50 company that we have been working with for more than a year (this is the same company that paid us \$400,000 at the end of 2011 to do a Collaborize Classroom-related project). The business arrangement we have been anticipating

could take one of multiple forms, and if/when consummated, it would make a material difference in our financial prospects, we believe. However, the wheels of this large bureaucracy (and a small handful of others) have been turning more slowly than we would like (we're told they've been emersed in an internal restructuring), thus, we have had to adjust and make contingency plans accordingly.

Besides reducing our monthly cash operating costs by approximately 2/3 since December 2011, we have addressed one of the key difficulties in our 2011 VC fundraising efforts - being a public company. A key action we have taken is to create two new "private" corporations - one called Collaborize Classroom, Inc. (CCI) and the other one called Collaborize, Inc. (CI). Both are currently wholly-owned by Democrosoft, Inc. (the parent public company, which we are all shareholders in). Our plan is to transfer all of the assets related to Collaborize Classroom (our Education division) into CCI, including cross-licensing of our overall intellectual property (we have 7 new U.S. patents pending), and to hold CI ready for a similar transaction, if needed for additional financing of our non-education business(s).

Several weeks ago, our Board approved the pursuit of our strategic options relating to all possible forms of monetization and financing of our business opportunities. Accordingly, we have entered into an agreement with the BTI Group (www.business-team.com) to represent Democrosoft in finding an investor in CCI or a purchaser of a substantial interest in CCI (<http://finance.yahoo.com/news/democrosoft-engages-investment-banker-100500212.html>). We believe that, based on the comparable transactions in the education technology space, we will be able to sell CCI (or raise new capital for it), which will provide the funds for us to adequately develop and market our WeJIT platform and products, based primarily on a licensing model (an simple investment in CCI will permit us to begin monetizing our "premium" paid versions of Collaborize Classroom to individual campuses and districts).

On September 6, 2012, we announced that we have entered into a non-exclusive agreement with Waterside Productions (<http://www.waterside.com/agency/>) to represent us in the licensing of our WeJIT platform within the e-book industry, which has been growing in leaps and bounds over the past few years and is poised to become the predominant way that books are sold around the world (<http://finance.yahoo.com/news/waterside-represent-wejits-e-books-100300507.html>). Our vision is that e-books everywhere will provide a way for authors and readers to connect with, discuss and collaborate with other readers both inside and outside the e-books, all initiated from *within the ebook itself*. Here is a link to the recent news article announcing this new and exciting contribution that WeJITs are making to the publishing world:

<http://finance.yahoo.com/news/interactive-e-book-introduces-worlds-160200690.html>

The second private company we have created (Collaborize, Inc.) will be available, at our election, to use as a vehicle for raising funds directly for the non-education areas of our business (WeJITs, Collaborize platform, etc.). In both cases (CCI and CI), a new investor or acquirer would be valuing our business(s) on a basis that is not pre-constrained by the artificial, thinly-traded and volatile DEMO public stock price. Potential acquirers and/or investors will also have simplified due-diligence that does not require a review of 20+ years of operating history (the private new company(s) are brand new, will contain all of the required assets, and will have only one other shareholder, Democrasoft, Inc).

Having successfully raised the first \$500,000 bridge loan in June, we have recently raised an additional amount of approximately \$300,000 toward the second \$500,000 portion of the bridge loan originally approved by our Board in May. Of this second \$300,000 raised to date, \$150,000 was provided by one of our largest shareholders and my own family personally participated in an amount of \$100,000. The company is in the process of raising the remaining \$200,000, which we hope to accomplish over the course of the next 7-14 days. Also, we have just completed the sale of our “burst.com” domain name (which we will no longer be using) for an additional \$75,000 of working capital. While we cannot guarantee that these combined amounts will be sufficient to finance all of our plans and/or opportunities for any extended period of time, we believe that it will enable us to keep our company in operation long enough to close at least one deal with our Fortune 50 partner (and/or other existing prospects) and to either sell-off or fully-finance Collaborize Classroom, providing us with the long-term capital that we believe we need to make our business a long-term success. Of course, we cannot assure that we will fully-fund the second portion of the bridge financing, that any deal will be consummated with the Fortune 50 company or that the WeJITs will indeed become a significant force in the e-book market.

While the current period is certainly one of the more challenging ones we have faced in our 20-plus years of operation, we are very much encouraged by the consistently positive response that both Collaborize Classroom and WeJITs have received and continue to receive in the market(s). Collaboration and education technology are two fast-growing segments of our economy (the world economy, for that matter) and we offer solutions in both areas that represent real innovation and that are poised to provide lasting financial returns to our shareholders, as well as lasting benefits for society. We are committed to remaining flexible and nimble with regard to our business strategies and to stay focused on achieving success.

I leave you with 4 web destinations that I believe you will want to visit:

The first is a column recently published by Edutopia (founded by George Lucas), which reviews and summarizes our award-winning Collaborize Classroom platform. CC has grown from 180 teachers at the start of 2011 to well over 35,000 individual teacher-launched CC sites world-wide

in just over 18 months (an average of more than 20% *monthly* growth). CC has delivered over 2 *million* individual topic-based lessons so far and our shared CC Topic Library now houses over 5,000 lessons created and shared by CC teachers around the world.

Here's the link to the Edutopia column: <http://www.edutopia.org/blog/augmenting-class-discussions-with-collaborize-todd-finely>

Next, renown writer/producer/author Bob Cringely recently wrote a column about WeJITs (<http://www.cringely.com/2012/08/24/whats-a-wejit/>) and in that column he launched an actual WeJIT to collect and organize his readers' input. If you click on this WeJIT link, you can see how a WeJIT actually works (and participate in it):

<http://www.mywejit.com/#!f74a48fd5d4d1da1df01550750cd32e3>.

I encourage you to read all the readers' comments (both pro and con) and note the vitality of the exchange. We see this is real reader engagement.

Another interesting article worth reading is a company profile that recently appeared in the Santa Rosa Press Democrat:

<http://www.pressdemocrat.com/article/20120904/BUSINESS/120909867>

Finally, please go to our public WeJIT creation site and create few WeJITs of your own: www.MyWeJIT.com. You'll find additional info regarding when you'd want to use a WeJIT on the Learn More link: <http://www.mywejit.com/learn-more>

We will continue to keep you informed of our progress and we thank you for your continuing confidence and support.

Sincerely,

Richard Lang
Chairman & CEO
Democrasoft, Inc.

Certain statements in this Chairman's Letter constitute "forward-looking statements." All statements other than statements of historical facts included in this website, including those regarding our future financial position and results, business strategy, plans and objectives of management for future operations, including plans for marketing Collaborize Classroom, Inc., , and statements about the prospects of WeJITs are forward-looking statements.

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

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