

Democrasoft, Inc.

(formerly known as Burst.com, Inc.)

Annual Report

For the Fiscal Year ended: December 31, 2009

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

[www.democrasoft.com](http://www.democrasoft.com)

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

Cusip 24811V 100

As of December 31, 2009, there were 42,500,480 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 26, 2010 was \$0.29. The Company's trading symbol is "DEMO" or "DEMO.PK".

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

DEMOCRASOFT, INC.

2009 ANNUAL REPORT

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Instant Video(R), Burstware(R), Faster-Than-Real-Time(R), Burstware Conductor(R), Burstware Player(R), and Burstware Server(R) Democrasoft (TM), Collaborize (TM), Wizdom of We (TM), Collaborize Town Hall Online (TM), Democrasoft Town Hall Online (TM) are registered trademarks of Burst.com (dba) 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. The risks and uncertainties are particularly applicable to our company because our product is newly developed and untested by the broader market. 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

Though we have made significant strides in the past year, we continue to be a company in transition. Prior to last year, our primary activity had been the enforcement of our intellectual property rights in certain network media delivery technology that we had invented. More recently, though we continue to be focused on monetizing those rights, we have invested our time and money in developing and market testing a new Web 2.0 software platform as a potential additional business direction for the company. That platform was introduced to the public on March 22, 2010, and we have just begun accepting orders. Because all new customers are offered a 30 day free trial, we do not yet have meaningful numbers of paying customers. We cannot assure that either our intellectual property monetization efforts or our new software platform will be successful.

Though our company is 20 years old and our stock has been publicly traded for most of that time, we suffered substantial reverses a decade ago, and, until recently, we were operating with only three full-time employees, using outside vendors and consultants as needed. As we have been ramping up our activities to complete initial development of our software platform and to prepare for marketing it, we have added personnel so that we have been working on a regular basis on site with an aggregate of approximately 11 employees and independent contractors through the late winter and early spring, plus a fluctuating number of additional off-site engineering resources.

During much of 2009 and into 2010, we have been engaged in the design, development, test marketing and marketing of Collaborize™, the company's new Web 2.0 social networking product based on user generated content. Collaborize, introduced on March 22, 2010 at DEMO, a technology industry conference in Palm Desert, California, was initially beta tested by approximately 30 group users, ranging from

schools to large university alumni offices, from small businesses to publicly traded multinationals. We received many helpful comments and were able to integrate those comments and suggestions into the current version of the product before the official launch. Collaborize facilitates group communication and decision-making processes, in part, by presenting four different communications channels - yes/no, multiple choice, open-ended and forum - for use in presenting different kinds of questions to any group. Because the company's marketing website, [www.democrasoft.com](http://www.democrasoft.com), includes a short video presentation that may help a reader understand the need that the Collaborize product addresses, we suggest that readers access it. We continue to work on the Collaborize product and there can be no assurance that the new product has been completely and faultlessly developed, that the company's business plan maximizes the potential of the product, that the product will indeed gain customer acceptance in adequate numbers or that the company will continue to market the product. While the company does have other Web 2.0 product possibilities, there can be no assurance that they can be successfully designed, developed and marketed.

Our patent portfolio presently covers three basic patent families related to our previously existing network media delivery, the Allen, Polish and Lang/Walters patents. The more recent patents relate more specifically to different aspects of network optimization. In the past, litigation has unfortunately been necessary to enforce our intellectual property rights. Since 2005, we have received more than \$70 million in aggregate settlements and license fees from Microsoft, Apple, and others. A complete list of our issued and pending patents can be found on our legacy website: [www.burst.com](http://www.burst.com). We are in the process of migrating this information onto our new [www.Democrasoft.com](http://www.Democrasoft.com) website; however, as of the date of this report, that migration had not yet been completed.

During 2008, we tested a modification of our intellectual property monetization strategy by investigating the possibility of selling one or more of our issued patents to various potential buyers. Our efforts in this area in 2008 were focused on discussions with parties having a particular interest in our DVR patent portfolio, which consisted of one issued U.S. Patent (#7,272,298) and several related pending patent applications. These discussions culminated in February, 2009 with the sale of our DVR patent portfolio to an unaffiliated company for \$2.3 million. The purchaser's identity has been withheld under the terms of the purchase agreement.

Throughout 2009, we continued our intellectual property monetization efforts, and in March, 2009, we announced that, in exchange for a one-time payment of \$300,000, we had non-exclusively licensed a US technology company to use one of our network optimization patents (U.S. patent #5,963,202) and agreed not to sue that company on our other patents, the technology company having warranted that to its knowledge it was not currently infringing any of those patents. The licensee's identity has been withheld under the terms of the license agreement.

Our current patent portfolio contains a number of patents that have, for the most part, never been subject to litigation. The bulk of these patents have generally related to two areas of intellectual property: (a) Network Optimization (i.e. patents authored by Allen, Polish and Rebane), and (b) video delivery-related technology (i.e. patents authored by Lang, Walters and/or Mincer). With the sale of the DVR patent portfolio behind us, we believe that our remaining patents are still timely to industry needs and

have value; thus we plan to continue our efforts to monetize them. In that connection, we have been working with a consulting firm and with counsel to develop an appropriate strategy for each of the patent families. For a variety of reasons, there is no single monetization strategy applicable to all of the patent families. These issues are quite complex and are also subject to the vagaries of the shifting interpretations of United States patent law. We generally prefer to avoid the litigation process and to negotiate mutually satisfactory business solutions, but our history has demonstrated that certain circumstances require a willingness to undertake the litigation process for proper vindication of our rights. It is, however, useful that a new industry model for patent monetization, “patent aggregation,” has emerged, comprised of entities whose sole business model is the acquisition of third party intellectual property. We believe that our intellectual property may have value to some of these entities.

The name of the Company was changed to Democrasoft, Inc. on March 19, 2010 pursuant to an amendment to the Company's Articles of Incorporation approved by the written consent of the holders of a majority of the company's common stock. Between 2003 and April 27, 2010, our stock was traded on the over-the-counter market “Pink Sheets” under the symbol "BRST" (or BRST.PK). Since April 27, 2010, our ticker symbol has been DEMO (or DEMO.PK). Our office is located in Santa Rosa, California.

## BUSINESS

### 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 Web 2.0 applications, which are rooted in active participation in these website applications by website visitors, have been developed and are growing productively. Some are revenue driven, and others are not.

### MARKET OPPORTUNITY FOR COLLABORIZE

We believe that, with our Collaborize product, we may have found an unfilled market need in the general area of social networking with user-generated content. Collaborize is positioned to be “social networking with purpose” as a means of distinguishing from other social networking sites which offer individuals connectivity with others, while not providing any additional purpose. Collaborize is also positioned as a tool to enable group decision-making. The user experience is designed to be very inviting and easy to use.

Because the barriers to entry are low, we believe that our marketing/pricing strategy, 30-day free trial, attention to customer needs, 20-year history, nimbleness and first-mover advantage, combined with the enthusiasm of our beta customers, should assist us in developing a wide market for Collaborize. Because of the low entry-level monthly price of Collaborize (after the 30-day free trial), we believe that groups as small as 10 could be attracted to Collaborize, since the monthly charge is a function of the number of anticipated active users. For instance, using both pricing structures and customer assistance, we will try to make Collaborize particularly interesting for non-profits; we

estimate that there are 1.1 million nonprofit organizations (including schools, environmental groups, alumni organizations, service clubs, etc.) in the United States alone. To modify Collaborize for other languages and cultures should not take enormous effort. Non-profits are just one possible vertical market that may be attractive for Collaborize.

Another version of the Collaborize product is Town Hall Online (™), which permits politicians to get in touch - and stay in touch - with their voters and contributors, online, 24/7, on our Collaborize platform. We believe that this is also a potentially fertile market for Collaborize. Since the Collaborize portal can be customized with each client's logo and colors, 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 believe that our Santa Rosa-based Community Development Managers, whose job is to reach out to customers to help them successfully launch, manage and integrate Collaborize into the fabric of their organizations, 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.

## INDUSTRY BACKGROUND FOR EXISTING INTELLECTUAL PROPERTY

In recent years, several related technologies have converged to enable the distribution of video and audio content over electronic communications networks. As network bandwidth, data storage, processing power, and compression technologies have become increasingly available and affordable, the demand for high quality video and audio over the Internet, as well as over intranet and other networks, has expanded rapidly. The result of such developments has been the transition of the Internet from a static, text-oriented network to an interactive environment filled with graphic and audio-visual content. With the advent of high-definition TV, the demand for efficient ways to use available bandwidth has become increasingly important.

Distributing audio-visual, time-based content over the Internet, or within an intranet, offers certain advantages and capabilities not generally available through traditional media, including consumer targeting and interactive responsiveness.

## MARKET OPPORTUNITY FOR EXISTING INTELLECTUAL PROPERTY

Because of the ever-increasing demands on network capacity, we believe that our remaining intellectual property should be attractive to any company that wishes to deliver digital media over electronic networks at a quality level high enough to justify charging end-users, content providers or advertisers. Our business model in the area of intellectual property now involves developing strategies that will enable us to successfully enforce and monetize our remaining intellectual property and receive what we hope will be meaningful licensing revenues from that activity, although there can be no assurance thereof. Alternatively, we may determine that the sale of one or more of our patents represents the greatest return for our shareholders. We have been evaluating and implementing what we believe to be the best methods, on a time and risk-adjusted basis, of monetizing our assets since 2008 and continue to evaluate and implement our strategy for monetizing these intellectual properties which were developed between 1988 and the present.

In the past two years, the U.S. Supreme Court and appellate courts have handed down rulings which, in the view of some commentators, have arguably redefined basic patent law principles that had stood since the inception of the U.S. patent system. The most recent of these significant changes was the holding of the U.S. Supreme Court in “KSR vs. Teleflex”, which was decided in April 2007. Many commentators believe that these changes will make it difficult for small entity inventors and patent holders to enforce their patent rights against larger industry competitors and large corporations in general. We believe that we are still in a position to continue to monetize our patents, and we believe that we have demonstrated this capability to some degree.

## COMPETITION

### Collaborize:

There are a number of competitors for the Collaborize product, ranging from the US mail to Yahoo Groups. Probably the greatest competition comes from the ability to “reply all” on email communications. The US mail is not an efficient decision-making tool, 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.

### Media Delivery & Network Optimization Intellectual Property:

We believe that our technological approaches to media delivery and network optimization are important solutions to important industry issues. However, there are other technological approaches that are currently being utilized. One such competitive approach is “peer-to-peer” multimedia distribution. While we believe that our solutions are superior in most applications, we depend primarily on pure intellectual property licensing to derive our revenues, while some of our competitors offer software products that they also support in the marketplace. We believe that our patented technological approach has been or is being incorporated into the products of various companies in our industry. We are currently studying the best methods to approach potential infringers, and those methods may differ from patent to patent and from infringer to infringer; there is not likely to be a single “best” methodology. There can be no assurance that we will be successful in licensing our technology to any companies without litigation, or that we will be successful in any litigation.

## SALES & MARKETING

### Sales and Marketing - Collaborize

We market our Collaborize product both directly through our three-person sales force and indirectly through the efforts of affiliates and partners, who will receive a

portion of the revenues. We are also considering the licensing of foreign language rights to Collaborize.

## Sales and Marketing - Intellectual Property

Our target market for licensing of our intellectual property is comprised of content providers, platform providers, network providers, content aggregators, computer manufacturer and consumer device manufacturers that are involved in the delivery of video and audio content to end users. There are also potential purchasers of one or more of our patents, including both industry participants and the new patent aggregation entities. We are currently focusing our marketing efforts on studying differential tactics for licensing different elements of our patent portfolio to these prospective customers. The internal sales organization for our intellectual property consists of our CEO and our VP of Operations. We are assisted by outside attorneys specializing in the enforcement of intellectual property rights, as well as specialized consulting resources.

Our goal is to continue to monetize our intellectual property. Since 2005, we have licensed our patents to Microsoft and Apple for a total of \$70,000,000, following litigation, along with subsequent non-exclusive licenses of one of our network optimization patents to two other companies for an additional \$833,000. Additionally, we have sold our DVR patent portfolio for \$2.3 million. We will seek to continue to license our intellectual property, using appropriate methods to enforce our rights. We will proceed with our efforts to monetize our entire portfolio in the most efficient and beneficial manner possible, including the sale of individual patents when that is deemed the most profitable course of action for our company. Shareholders should not infer any particular range of values of the company's remaining intellectual property.

We do not believe that there is any significant seasonality that would affect the licensing of our intellectual property or the sales of our products or services. As of December 31, 2009, there was no backlog of unfilled orders for our products. We do not anticipate that backlog will be a meaningful metric at any time in the foreseeable future.

## PATENTS & TRADEMARKS

Our current business of monetizing our intellectual property is presently very dependent on our patent portfolio. We have nine active issued U.S. patents (subsequent to the sale in 2009 of our issued DVR patent portfolio) as well four pending related applications. Our earliest patents, which described a broad class of systems that allow a user to view, edit, store video and/or audio information and send and receive the data associated with that video and/or audio information over networks in less time than is normally required to view or listen to the content, have expired. The remaining patents describe derivative inventions, including the use of burst mode delivery as a means of achieving network optimization.

Fourteen patents were issued to us in the United States since 1990, with four additional patent applications pending before the United States Patent Office. We also hold twelve European patents that remain in force in Germany, France, and the United Kingdom, with two pending European patent applications, two patents granted and in force in South Korea and one patent in Japan. We may file one or more patent applications with respect to aspects of our collaboration software.

We believe that our patents have application in various markets, particularly in the network optimization segment. Two patents issued in 2007 relate directly to network optimization and optimal use of bandwidth via specialized algorithms. There can be no assurance either that any pending patent applications will be granted or that if they are granted they will result in added value that we can license or sell.

Potential licensees include companies such as server and client manufacturers, bandwidth, network and platform providers, content aggregators, copyright owners, as well as personal computer, consumer device and other hardware manufacturers.

Our plan is to continue to attempt to monetize our patent portfolio through licensing and enforcement of our patent portfolio and to seek licensing revenues from any companies who seek to utilize our patented technology in their products or services. We will also consider selling any of our patents when we determine that proceeds from a sale are likely to exceed revenues from licensing, over time, with a time and risk-weighted adjustment. We maintain a database of potential licensing candidates whose goods and/or services we believe may require them to license our technology in order to avoid being in violation of our patents.

Although we have registered the trademarks "INSTANT VIDEO®, BURSTWARE®, FASTER-THAN-REAL-TIME®, BURSTWACORE CONDUCTOR®, BURSTWARE PLAYER® and BURSTWARE SERVER®", "FASTER THAN REAL TIME®, "BURST.COM®", "WHY STREAM WHEN YOU CAN BURST®", in the United States, as well as in certain countries in Europe and Asia, we offer no assurance of the ongoing value attributable thereto. We have also filed to register the trademarks "COLLABORIZE™", "DEMOCRASOFT™", "WISDOM OF WE™", along with "DEMOCRASOFT TOWN HALL ONLINE™", "COLLABORIZE TOWN HALL ONLINE™".

Because of our unusual business model - relying on both the monetization of intellectual property and a startup web-based software platform - our business is subject to some risk factors common to most businesses (dependence on key employees, for instance), not subject to risk factors faced by many businesses (we have no dependence on additional funding and little dependence on general economic conditions), but subject to certain unusual risk factors (vulnerability to additional court rulings or legislation weakening the rights of patent owners).

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 19 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 was unable to perform his duties for any extended period of time.
2. Intellectual Property. With regard to our patent portfolio, we are dependent upon the validity and enforceability of our intellectual property. If our intellectual property were found not to be valid and enforceable, we would be adversely affected. Most, but not all,

areas of intellectual property related to our Collaborize application are not patent-based, but rely instead on copyright protection.

3. Availability of Counsel. We are dependent on the availability of qualified legal counsel. If we were unable to obtain appropriate counsel, we would be adversely affected.

4. Technological Change. We believe our patents cover important elements of the computer networking and media delivery process. If technology trends were to change in a way which renders our technology obsolete, our patents would have little value.

5. 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.

6. 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 2,214 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 \$4,760 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.

## PATENT LICENSING & LEGAL PROCEEDINGS.

During 2009, we sold our DVR patent portfolio for \$2,300,000 and granted a non-exclusive license to a major U.S. company for a total of \$300,000 in licensing revenues. This was a license to one of the patents in our network optimization portfolio. The license also included a covenant not to sue the licensee for infringement of any other patents in our portfolio of patents, based on the representations by this licensee that to its knowledge, it was not infringing any other of our patents.

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 16, 2010, 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.

2008	High	Low
1st Quarter	\$.45	\$.28
2nd Quarter	\$.32	\$.15
3rd Quarter	\$.20	\$.11
4th Quarter	\$.14	\$.07
2009	High	Low
1st Quarter	\$.12	\$.08
2nd Quarter	\$.24	\$.10
3rd Quarter	\$.13	\$.11
4th Quarter	\$.13	\$.10

The number of holders of record of the Company's \$.00001 par value Common Stock at December 31, 2009, was approximately 250. The closing bid price of our stock was \$ .10 on December 31, 2009.

### DIVIDENDS

No dividends were declared or paid during 2009.

### 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 2009, currently posted on our web site, [www.burst.com](http://www.burst.com) (or [www.democrasoft.com](http://www.democrasoft.com)). Please note that the 2008 and 2009 Financial Statements are audited, and Summary pages are included in this report. A complete copy of our audited financials for 2009 can be found on our website: [www.burst.com](http://www.burst.com) (or [www.democrasoft.com](http://www.democrasoft.com)).

We are engaged in both the monetization of intellectual property related to the delivery of video and audio information over networks and the launch of a new web-based software product. Our principal executive offices are located in Santa Rosa, California

In 2009 we had \$2,600,000 of gross income derived from the monetization of our intellectual property as we sold our DVR patent portfolio for \$2,300,000 and granted a license to one licensee. That was a substantial increase from the \$533,500 of gross revenues in 2008 from intellectual property licensing. We caution interested parties not to extrapolate trends from any two-year comparison. Despite accruing interest income of \$108,534 related to a tax refund, which was received in 2010, our interest income was down by approximately \$12,000 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. As of this writing, we have had no income or fees from our new software product, Collaborize, which only launched March 22, 2010 and which comes with a free trial period.

During 2009, our general and administrative operating expenses were \$1,414,323 including all legal fees, down from \$1,656,981 in the prior year, primarily because the 2008 expenses included \$210,000 of employment contract signing bonuses. Legal fees were down from \$132,536 to \$52,514 because the patent monetization activities which resulted in 2009 income were mainly conducted in 2008. Finally, we incurred \$573,722 of research and development costs in connection with the development of the Collaborize software.

As of December 31, 2009, the sum of our cash on hand and investments in US Treasury securities was \$6,624,224 compared to \$5,936,744 as of the end of the prior year, reflecting both the receipt of the proceeds of the intellectual property monetization as well as the company's increased research and development expenses. During 2009 we also accrued \$789,679 for a tax refund, plus interest of \$108,374, all of which was received after the end of 2009. We believe that after payment of all 2009 taxes, our cash reserve will enable us to sustain our current operations for the foreseeable future. We are continuing to pursue additional licensing and other revenues; however, there can be no assurance our efforts will be successful. Our success will depend, in large part, on both the success of our Collaborize product and our continued ability to protect the intellectual property that we have developed through patents, trademarks, trade secrets, copyrights,

licenses and other intellectual property rights. There can be no assurance that our Collaborize product will be successful or that we will be successful in additional intellectual property monetization activities.

#### FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements for 2009 are attached .

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

Our independent auditors for fiscal year 2009 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, 2009 and their ages as of that date, are as follows:

Name	Age	Position
Richard A. Lang	56	Chairman, President, Chief Executive Officer and Chief Financial Officer
Eric H. Walters	53	Vice President, Operations
Colton Briner	33	Vice President and General Manager
Brian Murphy	53	Director
Barry L. Ritholtz	48	Director
Barry Reder	65	Director

The following sets forth biographical information as to the business experience of each Executive Officer and Director of the Company as of December 31, 2009:

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 is the inventor of record for the bulk of our Intellectual Property, as well as the originator of our Collaborize product idea. 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. Brian 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 Bachelors 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 one 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. Mr. Ritholtz is also the author of the best-selling book [Bailout Nation](#).

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 Burst 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.

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 of our patents and pending patent applications.

Colt Briner is the Vice President and General Manager of Democrasoft. He has been with the company for six 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 his degree in 1999.

#### 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, 2009. No other executive officer earned more than \$100,000 in salary and bonus for the fiscal year ended December 31, 2009.

##### Summary Compensation table

Name and Principle Position	Year	Salary	Other Compensation
Richard A. Lang Chairman of the Board, President and Chief Executive Officer	2009	\$270,000	\$7,589 (1)
	2008	\$270,000	\$7,589 (1)
Eric H. Walters Vice-President Operations	2009	\$90,000	\$0
	2008	\$90,000	\$0
Colton Briner V.P. & General Manager	2009	\$90,000	\$0
	2008	\$75,000	\$0

(1) Represents monthly auto allowance payments made to Mr. Lang totaling \$7,589 and \$ 7,589 for the years, 2009 and 2008, respectively.

During 2009 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. 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 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.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of December 31, 2009, 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 42,050,480 shares of common stock outstanding on December 31, 2009 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	5,896,654 (1)	13.87%
Brian Murphy	1,704,341 (2)	4.01%
Barry L. Ritholtz	900,000 (3)	2.11%
Barry Reder	1,471,133 (4)	3.46%
All executive officers and directors as a group (4 persons)	9,972,128	23.46%
5% Stockholders		
Gordon Rock	8,119,838 (5)	19.10%

(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. 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 3,877,350 shares owned by Mercer Management and 5,252,488 owned by Gordon Rock

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

On December 20, 2007, Richard Lang, the Company's CEO and Eric Walters, the VP of Operations, tendered 1,651,761 and 48,392 shares of common stock, respectively, to the Company at \$.28 a share (the closing price of the Company's Stock at the close of business on December 20, 2007) in return for the reduction of \$462,293.08 and \$13,549.76 of the amount of indebtedness on the Promissory Notes they issued to the Company on October 20, 2003. The two transactions, which were approved by the Board of Directors, reduced the Company's total number of outstanding common shares by 1,700,153 shares.

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.

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. During 2009, the company paid Mr.Reder \$ 91,960 for such consulting services.

## Non-lapse restriction stock purchases in 2009

On April 11, 2009 the Burst 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 2009, the company's accounting firm, Smith, Lange & Phillips of San Francisco merged with another firm to become DZH Phillips LLP.

## SUBSEQUENT EVENTS

On March 19, 2010, the company filed its certificate of amendment with the state of Delaware to effect the name change to Democrasoft, Inc. Upon receipt of regulatory approval from FINRA on April 26, 2010, the company announced that the name change process had been completed and, in conjunction with that name change, the company's ticker symbol has been changed to DEMO (or DEMO.PK).

On March 22, 2010, we publicly announced our new software product, Collaborize. The initial post-beta use of the product was in connection with Bob Cringely's entrepreneur contest in conjunction with his blog, Cringely.com.

DEMOCRASOFT, INC.



By /s/ Richard A. Lang

Chairman, Chief Executive Officer and Chief Financial Officer

BURST.COM, INC AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2009 and 2008

INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders of  
Burst.com, Inc. and Subsidiary  
Santa Rosa, California

SUMMARY FINANCIALS TO FOLLOW

Complete Audited Financials can be found on our website: [www.burst.com](http://www.burst.com)