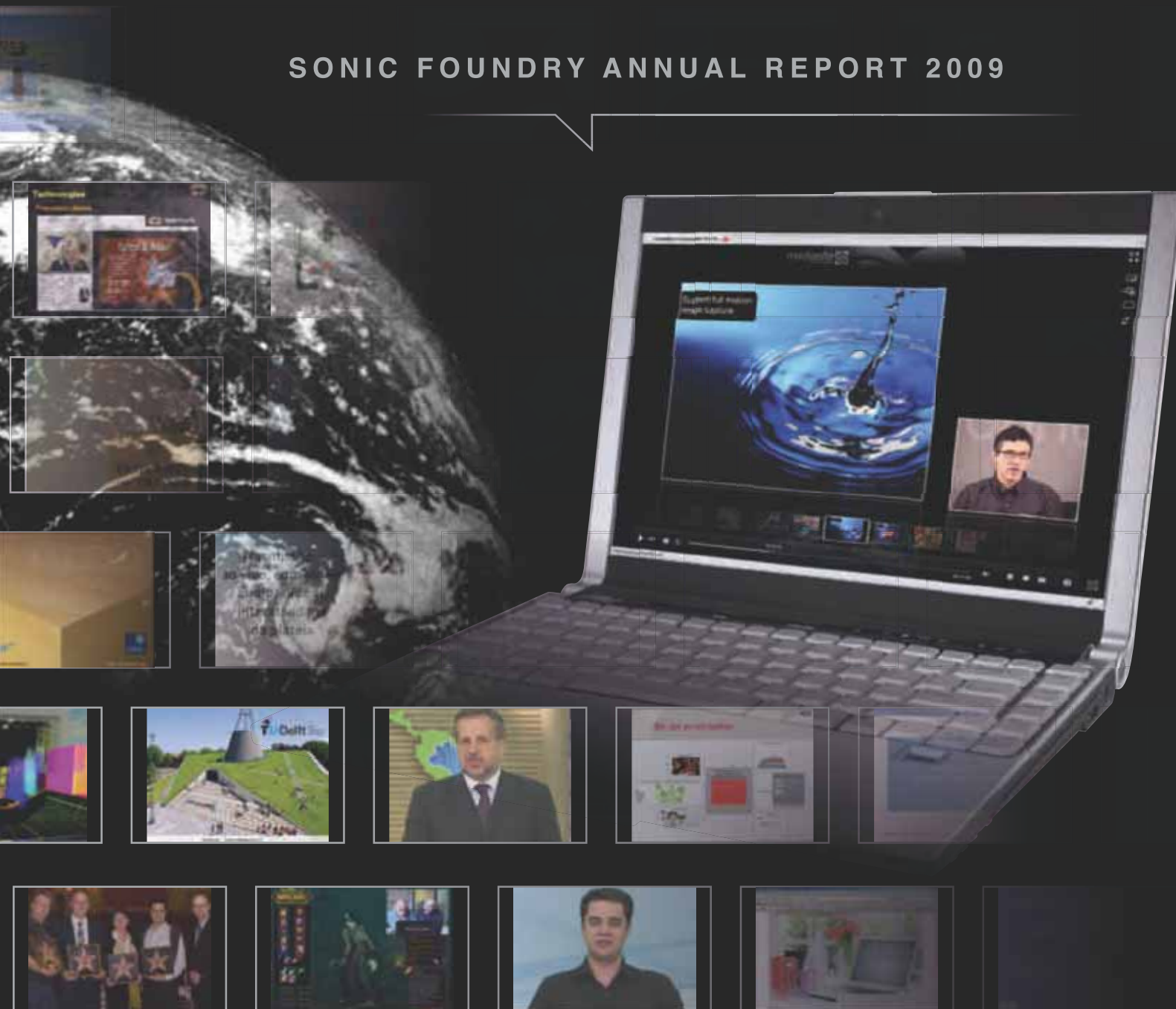


SONIC FOUNDRY ANNUAL REPORT 2009



Vi ønsker innlegg til dere:

• Hvordan kan Viik' digitale
Demokrati brukes i skolen?

NKULUY
UTSTILLERE

Managing Identity
in New Zealand

深海 equal 与 地球 守护者
WORLD ENVIRONMENTALISTS AWARDS

Åskatt ten is rög orger...

Kdy se nový model maturity
rozšířene napřino a jak bude
konkrétně vypadat?

10th ANNUAL REGIONAL ENCOURAGING
THE BIBLE IN MALDEN BY
MANAGEMENT OF RECTAL CANCER

31. kon

KLİM DEĞİŞİKLİK NAKE SAĞLIKNA
ve BÖLÜMÜM İTİMARNE ETİKLERİ

Verenieuw - Where is Te Mata Aotahi?

7. Duff

HOŞ GELDİNİZ



Technologies

ALUMINA Workshop

Group agreement: Cross-cultural learning

KEY
Soluciones de limpieza

アイム・スア・ドナー プロジェクト

ENQUETE

Qual é o diagnóstico clínico mais promissor?

- 1) Ataque por medicamentos
- 2) Ataque infeccioso
- 3) Ataque ao feto da mãe
- 4) Síndrome apólice

Vi ønsker innlegg til dere:

• Hvordan kan Viik' digitale
Demokrati brukes i skolen?

Trasmissoão
ao vivo, com vídeo,
áudio, slides e
interatividade
da plateia

To our shareholders,

2009 was an extraordinarily challenging year for almost every segment of the economy. But while Sonic Foundry started the year with an uncertain business climate, we successfully navigated the waters and continued to make further progress in establishing the Mediasite franchise. In fact, we're delighted to report revenue growth in an economic environment where most companies experienced a decline. In addition, costs were very much in check while growth continued, resulting in not only significant improvement to our bottom line, but also improving trends in almost every financial category. Finally, we painstakingly stuck to our core business focus and strategy and are now witnessing more large business opportunities than we have had historically, expected to materialize in 2010 and beyond.

The highlight for 2009 was certainly the closing of the largest deal in the company's history: King Abdullah University of Science and Technology in Saudi Arabia. This state of the art campus, newly built in the Middle East, is being complemented by the global market leader for webcasting and lecture capture, Mediasite by Sonic Foundry (*Frost & Sullivan* 2009). Multiple Mediasite classrooms are being built out on a scale we have not witnessed previously. We believe this is a harbinger of things to come, and as more institutions become aware of the power of our technology, more are likely to make the same decision. Most importantly, the Saudi Arabia transaction, as well as others like it, are demonstrating that Mediasite is being recognized not just in the U.S., but also on a world stage. This continued expansion of business proves the robust nature of the Mediasite brand and the confidence our customers place in our products and our people.

In the U.S., higher education use of Mediasite continues to grow. Important trends are emerging in this sector. The workforce is being retrained and is seeking alternatives to in-classroom instruction. Distance and blended learning programs continue to expand dramatically in comparison to traditional education. The average age of a higher education student continues to rise. By utilizing Mediasite, our customers gain the best of both worlds and meet the needs of a burgeoning pool of students who require greater learning flexibility. Mediasite is now extending itself beyond the traditional halls of learning. We also count among our customers numerous technical, vocational and community colleges, a growing area which further underscores the power of our offerings.

Corporate and government sector organizations continue to expand among our customer ranks as well. The primary applications mirror those in higher education: workforce and customer training, professional development and education. At a government level, vital communications are fulfilled by webcasting in areas such as public safety and health. In addition, our Events Services team has established a niche for larger audience webcasts, including the webcast of First Lady Michelle Obama delivering her first commencement address at the University of California-Merced. Whether key government figures or corporate executives, Mediasite continues to be relied upon for critical live and on demand webcasts.

Year in and year out Sonic Foundry has been recognized for its outstanding products and services. We take great pride in this and 2009 was no exception. We were once again named by various industry trade groups and analysts as the leader in our space, including Best Webcasting Platform for the third year in *Streaming Media's* Readers' Choice Awards and the only U.S. company to be honored in their first European awards. This is, without a doubt, the most rewarding aspect of running Sonic Foundry: hearing first hand from customers who have had an exceptional experience. We plan to keep improving our rigorous customer focus to help our customers grow along with us.

Emerging from the recession, our prospects for growth have never looked stronger. We are seeing signs of a return to normal, with steadier buying patterns emerging. IT spending appears to once again be on the rise. And most importantly, video over the web is one of the key areas of investment. We predicted early on that enterprise video will change the way we live, work and learn. Today we're at the cusp of finally realizing our growth potential.

As we embark into the new decade, we are convinced that our Company is well positioned for the future. We remain resolute on seeing our vision through and are confident that our business plan is well structured to generate the type of profit and growth that will build substantial shareholder value. We thank you for your confidence and are delighted to have you along for our next growth phase.

Rimas Buinevicius
Chairman and CEO



SONIC FOUNDRY, INC.
222 West Washington Avenue
Madison, Wisconsin 53703

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held March 4, 2010**

The Annual Meeting of Stockholders of **SONIC FOUNDRY, INC.**, a Maryland corporation (“Sonic”) will be held at the Monona Terrace Community and Convention Center, One John Nolen Drive, Madison, Wisconsin 53703 on March 4, 2010 at 9:00 a.m. local time, for the following purposes:

1. To elect one director to hold office for a term of five years, and until his successor is duly elected and qualified.
2. To ratify the appointment of Grant Thornton LLP as our independent auditors for the fiscal year ending September 30, 2010.
3. To transact such other business as may properly come before the meeting or any adjournments thereof.

All the above matters are more fully described in the accompanying Proxy Statement.

Only holders of record of Common Stock at the close of business on January 12, 2010 are entitled to notice of, and to vote at, this meeting or any adjournment or adjournments thereof.

Please complete and return the enclosed proxy in the envelope provided or follow the instructions on the proxy card to authorize a proxy by telephone or over the Internet, **whether or not** you intend to be present at the meeting in person.

By Order of the Board of Directors,

Kenneth A. Minor
Secretary

Madison, Wisconsin
January 28, 2010

If you cannot personally attend the meeting, it is earnestly requested that you promptly indicate your vote on the issues included on the enclosed proxy and date, sign and mail it in the enclosed self-addressed envelope, which requires no postage if mailed in the United States or, follow the instructions on the proxy card to authorize a proxy by telephone or over the Internet. Doing so will save us the expense of further mailings. If you sign and return your proxy card without marking choices, your shares will be voted in accordance with the recommendations of the Board of Directors.

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**SONIC FOUNDRY, INC.
222 W. Washington Avenue
Madison, Wisconsin 53703**

January 28, 2010

PROXY STATEMENT

The Board of Directors of Sonic Foundry, Inc., a Maryland corporation (“Sonic”), hereby solicits the enclosed proxy. Unless instructed to the contrary on the proxy, it is the intention of the persons named in the proxy to vote the proxies:

FOR the election of Mark D. Burish as Director for a term expiring in 2015; and

FOR the ratification of the appointment of Grant Thornton LLP as independent auditors of Sonic for the fiscal year ending September 30, 2010.

In the event that the nominee for director becomes unavailable to serve, which management does not anticipate, the persons named in the proxy reserve full discretion to vote for any other person who may be nominated. Proxies may also be authorized by telephone or over the Internet by following the instructions on the proxy card. Any stockholder giving a proxy may revoke the same at any time prior to the voting of such proxy. This Proxy Statement and the accompanying proxy are being mailed on or about February 1, 2010.

Each stockholder will be entitled to one vote for each share of Common Stock standing in his or her name on our books at the close of business on January 12, 2010 (the “Record Date”). Only holders of issued and outstanding shares of Sonic's common stock as of the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting, including any adjournment or postponement thereof. On that date, we had outstanding and entitled to vote 3,606,922 shares of Common Stock, held by approximately 7,600 stockholders, of which approximately 7,200 were held in street name. All stock and option amounts set forth herein reflect a one-for-ten reverse stock split of the Company's common stock, which was effective on November 16, 2009.

QUORUM; VOTES REQUIRED

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspector of elections appointed for the Annual Meeting and will determine whether or not a quorum is present. Where, as to any matter submitted to the stockholders for a vote, proxies are marked as abstentions (or stockholders appear in person but abstain from voting), such abstentions will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter and has not received instructions from the beneficial owner, which is known as a broker non-vote, those shares will not be considered as present and entitled to vote with respect to that matter; however, such shares will be considered present for purposes of a quorum, provided that the broker exercises discretionary authority on any other matter in the Proxy. A majority of the shares of Common Stock issued, outstanding and entitled to vote at the Annual Meeting, present in person or represented by proxy, shall constitute a quorum at the Annual Meeting. The election of the Director requires a plurality of the votes present and entitled to vote. The approval of the other proposal requires the affirmative vote of the holders of a majority of the votes cast at the Annual Meeting.

DATE, TIME AND PLACE OF ANNUAL MEETING

The Annual Meeting will be held on March 4, 2010 at 9:00 a.m. (Central time) at the Monona Terrace Community and Convention Center, One John Nolen Drive, Madison, Wisconsin 53703.

PROPOSAL ONE: ELECTION OF DIRECTORS

Our Amended and Restated Articles of Incorporation and Bylaws provide that the Board of Directors shall be divided into five classes, with each class having a five-year term. Directors are assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. Vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes may be filled by either the affirmative vote of the holders of a majority of the then-outstanding shares or by the affirmative vote of a majority of the remaining directors then in office, even if less than a quorum of the Board of the Directors. Newly created directorships resulting from any increase in the number of directors may, unless the Board of Directors determines otherwise, be filled only by a majority vote of the entire Board of Directors. A director elected by the Board of Directors to fill a vacancy (including a vacancy created by an increase in the number of directors) shall serve until the next annual meeting of stockholders or until such director's successor is elected and qualified.

Our Amended and Restated Articles of Incorporation provide that the number of directors, which shall constitute the whole Board of Directors, shall be not less than three or more than twelve. Our currently authorized number of directors is seven. The seat on the Board of Directors currently held by Arnold B. Pollard is designated as a Class II Board seat, with term expiring as of the Annual Meeting. Mr. Pollard has indicated he will not stand for re-election at this Annual Meeting. The Board of Directors has nominated Mark D. Burish as a Class II Director for election at the Annual Meeting.

Mr. Burish, is not currently a Board member of Sonic. If elected at the Annual Meeting, Mr. Burish would serve until the 2015 Annual Meeting and until his successor is elected and qualified or until his earlier death, resignation or removal.

Nominees for Director for a Five-Year term expiring on the 2015 Annual Meeting

Mark D. Burish

Mr. Burish, age 56, is a founder and shareholder of the law firm of Hurley, Burish & Stanton, Madison, WI, which he helped start in 1983. He is the founder and CEO of Our House Senior Living, LLC, Milestone Senior Living, LLC and Milestone Management Services, LLC which he started in 1997. Mr. Burish received his BA degree in communications from Marquette University in 1975 and his JD degree from the University of Wisconsin in 1978.

The election of a Director requires the approval of a plurality of the votes cast by holders of the shares of Sonic's common stock. Any shares not voted, whether by broker non-vote or otherwise, will have no impact on the outcome of the election. Pursuant to revised stock exchange regulations, brokers will not have discretionary authority to vote on this matter if the broker has not received instructions from the beneficial owner.

The disinterested members of the Board of Directors unanimously recommends a vote FOR the election of Mr. Burish as Class II Director.

DIRECTORS CONTINUING IN OFFICE

Frederick H. Kopko, Jr.

Term Expires in 2011

Mr. Kopko, age 54, has been corporate Secretary from April 1997 to February 2001 and has been a Director since December 1995. Mr. Kopko is a partner of the law firm of McBreen & Kopko, Chicago, Illinois, and has been a partner of that firm since January 1990. He has been a Director of Mercury Air Group, Inc. since 1992. Mr. Kopko received a B.A. degree in economics from the University of Connecticut, a J.D. degree from the University of Notre Dame Law School, and an M.B.A. degree from the University of Chicago.

Rimas P. Buinevicius

Term Expires in 2012

Mr. Buinevicius, age 47, has been the Chairman of the Board since October 1997 and Chief Executive Officer since January 1997. In addition to his organizational duties, Mr. Buinevicius is a recognized figure in the rich media industry focused on the convergence of technology, digital media and entertainment. Mr. Buinevicius joined Sonic in 1994 as General Manager and Director of Marketing. Prior to joining Sonic, Mr. Buinevicius spent the majority of his professional career in the fields of biomedical and industrial control research and development. Mr. Buinevicius earned an M.B.A. degree from the University of Chicago; a Master's degree in Electrical Engineering from the University of Wisconsin, Madison; and a Bachelor's degree in Electrical Engineering from the Illinois Institute of Technology, Chicago. Mr. Buinevicius is a recipient of Ernst and Young's Entrepreneur of the Year award.

Monty R. Schmidt

Term Expires in 2013

Mr. Schmidt, age 45, has been the Chief Technology Officer since July 2003 and served as President from March 1994 to July 2003 and as a Director since February 1994. Throughout his tenure at Sonic Foundry, Mr. Schmidt has spearheaded a variety of engineering and strategic initiatives that have helped grow Sonic from the one person startup he founded in 1991. In addition to acting as an industry liaison, Mr. Schmidt is responsible for managing and facilitating technology development and utilization. Prior to joining Sonic, Mr. Schmidt served in software and hardware engineering capacities for companies in the medical and food service equipment industries. Mr. Schmidt has a B.S. degree in Electrical Engineering from the University of Wisconsin, Madison.

Gary R. Weis

Term Expires in 2013

Mr. Weis, age 62, has been a Director of Sonic since February 2004 and was President, Chief Executive Officer and a Director of Cometa Networks, a wireless broadband Internet access company from March 2003 to April 2004. From May 1999 to February 2003 he was Senior Vice President of Global Services at AT&T where he was responsible for one of the world's largest data and IP networks, serving more than 30,000 businesses and providing Internet access to more than one million individuals worldwide. While at AT&T, Mr. Weis also was CEO of Concert, a joint venture between AT&T and British Telecom. Previously, from January 1995 to May 1999 he was General Manager of IBM Global Services, Network Services. Mr. Weis served as a Director from March 2001 to February 2003 of AT&T Latin America, a facilities-based provider of telecom services in Brazil, Argentina, Chile, Peru and Columbia. Mr. Weis earned BS and MS degrees in Applied Mathematics and Computer Science at the University of Illinois, Chicago.

David C. Kleinman

Term Expires in 2014

Mr. Kleinman, age 74, has been a Director of Sonic since December 1997 and has taught at the Chicago Booth School of Business at the University of Chicago since 1971, where he is now Adjunct Professor of Strategic Management. Mr. Kleinman has been a Director (trustee) of the Columbia Acorn Trust, and its predecessors since 1972 (which he is a member of the Committee on Investment Performance and a member of the Compliance Committee); a Director (trustee) of the Wanger Advisors Trust since 2005; a Director and non-executive chair of the Board since 1984 of North Lime Holdings and its wholly owned subsidiary, Irex Corporation, a contractor and distributor of insulation materials (where he is chairman of the Board of Directors); and a Director since 1993 of Plymouth Tube Company, a manufacturer of metal tubing and metal extrusions (where he serves on the Audit

Committee). From 1999 to 2006, he was a member of the Advisory Board of DSC Logistics, a logistics management and warehousing firm. From May 1997 to February 2004, Mr. Kleinman served as a Director of AT&T Latin America and predecessor companies, a facilities-based provider of telecom services in Brazil, Argentina, Chile, Peru and Columbia (where he was chair of the Audit Committee and a member of the Compensation Committee). From 1994 to 2005, he was a director of Wisconsin Paper and Products Company, a jobber of paper and paper products. From 1964 to 1971, Mr. Kleinman was a member of the finance staff of the Ford Motor Company.

Paul S. Peercy

Term Expires in 2014

Mr. Peercy, age 69, has been a Director of Sonic since February 2004. Since September 1999, Mr. Peercy has served as dean of the University of Wisconsin-Madison College of Engineering. Since 2001 Mr. Peercy has been a member of the National Academy of Engineering. In 2000, then-Wisconsin Governor Tommy Thompson named Mr. Peercy to the Wisconsin Technology and Entrepreneurship Council. From August 1995 to September 1999, Mr. Peercy served as president of SEMI/SEMATECH, an Austin, Texas-based non-profit consortium of more than 160 of the nation's suppliers to the semiconductor industry. Prior to that position he was director of Microelectronics and Photonics at Sandia National Laboratories in Albuquerque, New Mexico. He is the author or co-author of more than 175 technical papers and the recipient of two patents. Mr. Peercy is a Director and member of the audit committee of Bemis Company, Inc, a manufacturer of flexible packaging and pressure sensitive materials. Mr. Peercy received a BA degree in Physics from Berea College and MS and PhD degrees in Physics from the University of Wisconsin - Madison.

CORPORATE GOVERNANCE

Director Independence

Through its listing requirements for companies with securities listed on the NASDAQ Capital Market, the NASDAQ Stock Market ("NASDAQ") requires that a majority of the members of our Board be independent, as defined under NASDAQ's rules. The NASDAQ rules have both objective tests and a subjective test for determining who is an "independent director." The objective tests state, for example, that a director is not considered independent if he or she is an employee of the Company or has engaged in various types of business dealings with the Company. The subjective test states that an independent director must be a person who lacks a relationship that in the opinion of the Board would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has made a subjective determination as to each independent director that no relationship exists which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, the Board reviews information provided by the directors in an annual questionnaire with regard to each director's business and personal activities as they relate to the Company. Based on this review and consistent with NASDAQ's independence criteria, the Board has affirmatively determined that the following directors: David C. Kleinman, Paul S. Peercy, Arnold B. Pollard and Gary R. Weis and that the nominee for director, Mark D. Burish, are independent.

Related Person Transaction

The Board has adopted a Related Person Transaction Policy (the "Policy"), which is a written policy governing the review and approval or ratification of Related Person Transactions, as defined in SEC rules.

Under the Policy, each of our directors and executive officers must notify the Chairman of the Audit Committee in writing of any potential Related Person Transaction involving such person or an immediate family member. The Audit Committee will review the relevant facts and circumstances and will approve or ratify the transaction only if it determines that the transaction is in, or is not inconsistent with, the best interests of the Company. The Related Party Transaction must then be approved by the independent directors. In determining whether to approve or ratify a Related Person Transaction, the Audit Committee and the independent directors may consider, among other things, the benefits to the Company; the impact on the director's independence (if the Related Person is a director or an immediate family member); the availability of other sources for comparable products or services; the terms of the

transaction; and the terms available to unrelated third parties or to employees generally. There were no Related Person Transactions in the fiscal year ended September 30, 2009 (“Fiscal 2009”).

Board Structure and Meetings

The Board met six times during Fiscal 2009. The Board also acted by written consent from time to time. All directors attended at least 75% of the total number of Board meetings and committee meetings on which they serve (during the period in which each director served). In addition, NASDAQ marketplace rules contemplate that the independent members of our Board will meet during the year in separate closed meetings referred to as “executive sessions” without any employee director or executive officer present. Executive sessions were usually held after regularly scheduled Board meetings during Fiscal 2009.

The Board of Directors has four standing committees, the Audit Committee, the Executive Compensation Committee, the Nominations Committee and the Operations Analysis Committee.

Sonic has a standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Messrs. Kleinman (chair), Weis and Peercy serve on the Audit Committee. Sonic’s Board of Directors has determined that all members of Sonic’s Audit Committee are “independent” as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act and as defined under Nasdaq listing standards. The Audit Committee provides assistance to the Board in fulfilling its oversight responsibility including: (i) internal and external financial reporting, (ii) risks and controls related to financial reporting, and (iii) the internal and external audit process. The Audit Committee is also responsible for recommending to the Board the selection of our independent public accountants and for reviewing all related party transactions. The Audit Committee met five times in Fiscal 2009. A copy of the charter of the Audit Committee is available on Sonic’s website.

Sonic's Board of Directors has determined that, due to his affiliation with the Graduate School of Business at the University of Chicago, and due to his serving as a director on numerous company boards, along with his other academic and business credentials, Mr. Kleinman has the requisite experience and applicable background to meet Nasdaq standards requiring financial sophistication of at least one member of the audit committee. Sonic's Board of Directors has also determined that neither Mr. Kleinman nor any other member of the Audit Committee is an audit committee financial expert as defined by applicable SEC regulations

The Compensation Committee consists of Messrs. Kleinman (chair), Weis and Peercy. The Board of Directors has determined that all of the members of the Compensation Committee are “independent” as defined under Nasdaq listing standards. The Compensation Committee makes recommendations to the Board with respect to salaries of employees, the amount and allocation of any incentive bonuses among the employees, and the amount and terms of stock options to be granted to executive officers. The Compensation Committee met two times in Fiscal 2009. A copy of the charter of the Compensation Committee is available on Sonic’s website.

The Nominations Committee consists of Messrs. Peercy (chair), Weis and Kleinman. The Board of Directors has determined that all of the members of the Nominations Committee are “independent” as defined under Nasdaq listing standards. The purpose of the Nominations Committee is to evaluate and recommend candidates for election as directors, make recommendations concerning the size and composition of the Board of Directors, develop specific criteria for director independence, and assess the effectiveness of the Board of Directors. Our Board of Directors has adopted a charter for the Nominations Committee, which is available on Sonic’s website. The Nominations Committee will review all candidates in the same manner regardless of the source of the recommendation. Stockholder recommendations of candidates for Board membership will be considered when submitted to Corporate Secretary, Sonic Foundry, Inc., 222 W. Washington Ave., Madison, WI 53703. When submitting candidates for nomination to be elected at Sonic's annual meeting of stockholders, stockholders must also follow the notice procedures and provide the information required by Sonic's bylaws.

In particular, for a stockholder to nominate a candidate for election at the 2011 Annual Meeting of Stockholders, the nomination must be delivered or mailed to and received by Sonic's Secretary between November 4, 2010 and December 4, 2010 (or, if the 2011 annual meeting is advanced by more than 30 days or delayed by more than 60 days

from such anniversary date, not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth calendar day following the date on which public announcement of the date of the annual meeting is first made). The nomination must include the same information as is specified in Sonic's bylaws for stockholder nominees to be considered at an annual meeting, including the following:

- The stockholder's name and address and the beneficial owner, if any, on whose behalf the nomination is proposed;
- The stockholder's reason for making the nomination at the annual meeting, and the signed consent of the nominee to serve if elected;
- The number of shares owned by, and any material interest of, the record owner and the beneficial owner, if any, on whose behalf the record owner is proposing the nominee;
- A description of any arrangements or understandings between the stockholder, the nominee and any other person regarding the nomination; and
- Information regarding the nominee that would be required to be included in Sonic's proxy statement by the rules of the Securities and Exchange Commission, including the nominee's age, business experience for the past five years and any other directorships held by the nominee.

The Operations Analysis Committee consists of Messrs. Weis (chair) and Pollard. The Operations Analysis Committee was established in May 2008 to facilitate communication and provide advisory leadership in planning and strategic growth. The Operations Analysis Committee met in person and held numerous informal and telephonic meetings in Fiscal 2009.

DIRECTORS COMPENSATION

Our directors, who are not also our full-time employees, receive an annual retainer of \$20,000 in addition to a fee of \$1,500 for attendance at each meeting of the Board of Directors and \$1,000 per committee meeting attended, other than the chair of our Audit Committee, Mr. Kleinman, who receives \$2,000 per Audit Committee meeting attended. In addition, the chair of our Operations Analysis Committee, Mr. Weis, receives compensation of a \$12,000 retainer per year and Mr. Pollard receives an annual retainer of \$6,000 per year as compensation as a member of the Operations Analysis Committee. The cash compensation paid to the five non-employee directors combined in Fiscal 2009 was approximately \$210,000. When traveling from out-of-town, the members of the Board of Directors are also eligible for reimbursement for their travel expenses incurred in connection with attendance at Board meetings and Board Committee meetings. Directors who are also employees do not receive any compensation for their participation in Board or Board Committee meetings.

Pursuant to the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan (the "Directors Plan") we grant to each non-employee director who is reelected or who continues as a member of the Board of Directors at each annual stockholders meeting a stock option to purchase 2,000 shares of Common Stock. Further, the chair of our Audit Committee receives an additional stock option grant to purchase 500 shares of Common Stock per year and the chair of our Operations Analysis Committee received a one-time stock option grant to purchase 5,000 shares of common stock which vest 25% immediately, and 25% on each of 4 months, 16 months and 28 months from the date of grant for his role in managing the activities of the Operations Analysis Committee pursuant to Sonic's Non Qualified Stock Option Plan.

The exercise price of each stock option granted was equal to the market price of Common Stock on the date the stock option was granted. Stock options issued under the Directors Plan vest fully on the first anniversary of the date of grant and expire after ten years from date of grant. An aggregate of 50,000 shares are reserved for issuance under the Directors Plan.

If any change is made in the stock subject to the Directors Plan, or subject to any option granted thereunder, the Directors Plan and options outstanding thereunder will be appropriately adjusted as to the type(s), number of securities and price per share of stock subject to such outstanding options.

The options and warrants set forth above have an exercise price equal to the fair market value of the underlying common stock on the date of grant. The term of all such options is ten years.

The following table summarizes cash and equity compensation provided our non-employee directors during the fiscal year ended September 30, 2009.

Name (a)	Fees Earned Or Paid In Cash \$(1) (b)	Stock Awards (\$) (c)	Option Awards \$(2) (d)	Non-Stock Incentive Plan Compensation (\$) (e)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$) (f)	All Other Compensation (\$) (g)	Total (\$) (h)
David C. Kleinman	42,000	—	18,850	—	—	—	60,850
Frederick H. Kopko	29,000	—	15,080	—	—	—	44,080
Paul S. Percy	37,000	—	15,080	—	—	—	52,080
Arnold B. Pollard	41,000	—	15,080	—	—	—	56,080
Gary R. Weis	61,000	—	28,894	—	—	—	89,894

- (1) The amount reported in column (b) is the total of retainer fees and meeting attendance fees.
- (2) The amount reported in column (d) is the dollar amount recognized for financial reporting purposes for the fiscal year ended September 30, 2009 in accordance with FAS 123(R). Each director received an option award of 2,000 shares on March 5, 2009 at an exercise price of \$5.50 with a grant date fair value of \$6,346. In addition, Mr. Kleinman received a grant of 500 shares on March 5, 2009 at an exercise price of \$5.50 with a grant date fair value of \$1,587 in connection with his position as chair of the Audit Committee and Mr. Weis received a grant of 5,000 shares on November 3, 2008 at an exercise price of \$5.00 with a grant date fair value of \$13,814 in connection with his position as chair of the Operations Analysis Committee.

EXECUTIVE OFFICERS OF SONIC

Our executive officers, who are appointed by the Board of Directors, hold office for one-year terms or until their respective successors have been duly elected and have qualified. There are no family relationships between any of the executive officers of Sonic.

Rimas P. Buinevicius is our Chairman of the Board of Directors and Chief Executive Officer. (See " Directors Continuing in Office ".)

Monty R. Schmidt is our Chief Technology Officer and a Director. (See " Directors Continuing in Office ".)

Kenneth A. Minor, age 47, has been our Chief Financial Officer since June 1997, Assistant Secretary from December 1997 to February 2001 and Secretary since February 2001. From September 1993 to April 1997, Mr. Minor was employed as Vice President and Treasurer for Fruehauf Trailer Corporation, a manufacturer and global distributor of truck trailers and related after market parts and service where he was responsible for financial, treasury and investor relations functions. Prior to 1993, Mr. Minor served in various senior accounting and financial positions for public and private corporations as well as the international accounting firm of Deloitte Haskins and Sells. Mr. Minor is a certified public accountant and has a B.B.A. degree in accounting from Western Michigan University.

Robert M. Lipps, age 38, has been Executive Vice President of Sales since April 2008, joining Sonic Foundry in April 2006 as Vice President of International Sales and assuming expanded responsibility for U.S. central sales in 2007. Mr. Lipps leads the company's global sales organization including oversight of domestic, international and channel sales. He holds 15 years of sales leadership, business development and emerging market entry expertise in the technology and manufacturing sectors, including sales and channel management. From January 2004 to March 2006 he served as General Manager of Natural Log Homes LLC, a New Zealand based manufacturer of log homes. From July 1999 to Dec 2002 he served as Latin America Regional Manager of Adaytum, a software publisher of planning and performance management solutions, (acquired by Cognos Software, an IBM Company, in January 2003) and from May 1996 to July 1999 he served as International Sales Manager for Persoft, a software publisher of host access and mainframe connectivity solutions (acquired by Esker software in 1998). Mr. Lipps has a B.S. degree in Marketing from the University of Wisconsin at La Crosse.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows information known to us about the beneficial ownership of our Common Stock as of January 12, 2010, by each stockholder known by us to own beneficially more than 5% of our Common Stock, each of our executive officers named in the Summary Compensation Table ("Named Executive Officers"), each of our directors, and all of our directors and executive officers as a group. Unless otherwise noted, the mailing address for these stockholders is 222 West Washington Avenue, Madison, Wisconsin 53703.

Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting or investment power with respect to shares. Shares of common stock issuable upon the exercise of stock options or warrants exercisable within 60 days after January 12, 2010, which we refer to as Presently Exercisable Options, are deemed outstanding for computing the percentage ownership of the person holding the options but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. The inclusion of any shares in this table does not constitute an admission of beneficial ownership for the person named below.

Based on currently available Schedules 13D and 13G filed with the SEC, we do not know of any beneficial owners of more than 5% of our Common Stock, other than listed below.

Name of Beneficial Owner(1)	Number of Shares of Class Beneficially Owned	Percent of Class(2)
Common Stock		
Monty R. Schmidt (3)	339,626	9.4%
Rimas P. Buinevicius(4)	278,778	7.5
Mark D. Burish(5) 33 East Main St. Madison, WI 53703	90,000	2.5
Arnold B. Pollard(6) 733 Third Avenue New York, NY 10017	63,082	1.7
Kenneth A. Minor(7)	47,093	1.3
Frederick H. Kopko, Jr.(8) 20 North Wacker Drive Chicago, IL 60606	38,627	1.1
David C. Kleinman(9) 1101 East 58th Street Chicago, IL 60637	30,000	*
Gary R. Weis(10) P.O. Box 272 Deerfield, IL 60015	20,250	*
Paul S. Peercy(11) 1415 Engineering Dr Madison, WI 53706	14,040	*
Robert M. Lipps(12)	11,324	*
All Executive Officers and Directors as a Group (9 persons)(13)	842,820	21.4%

* less than 1%

- (1) Sonic believes that the persons named in the table above, based upon information furnished by such persons, have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them.
- (2) Applicable percentages are based on 3,606,922 shares outstanding, adjusted as required by rules promulgated by the Securities and Exchange Commission.
- (3) Includes 25,313 shares subject to Presently Exercisable Options.
- (4) Includes 125,333 shares subject to Presently Exercisable Options. Also includes 20,205 shares owned by Cleopatra Buinevicius for which Mr. Buinevicius has power of attorney to vote and/or dispose of such shares. Ms. Buinevicius is the mother of Mr. Buinevicius. Mr. Buinevicius disclaims beneficial ownership of such shares.
- (5) Mr. Burish is a nominee for Director
- (6) Consists of 63,082 shares subject to Presently Exercisable Options.

- (7) Includes 38,894 shares subject to Presently Exercisable Options.
- (8) Includes 10,000 shares subject to Presently Exercisable Options.
- (9) Includes 27,000 shares subject to Presently Exercisable Options.
- (10) Includes 17,750 shares subject to Presently Exercisable Options.
- (11) Includes 14,000 shares subject to Presently Exercisable Options.
- (12) Includes 11,249 shares subject to Presently Exercisable Options.
- (13) Includes an aggregate of 332,621 Presently Exercisable Options.

Compensation Discussion and Analysis

Introduction

This Compensation Discussion and Analysis describes our compensation strategy, policies, programs and practices for the executive officers identified in the Summary Compensation Table. Throughout this proxy statement, we refer to these individuals, who serve as our Chief Executive Officer, Chief Financial Officer, Chief Technology Officer and Executive Vice President of Sales as the “executive officers.”

The Compensation Committee (“Committee”) establishes and oversees our compensation and employee benefits programs and approves the elements of total compensation for the executive officers. The day-to-day design and administration of our retirement and employee benefit programs available to our employees are handled by our Human Resources and Finance Department employees. The Committee is responsible for reviewing these programs with management and approving fundamental changes to them.

Overview and Objectives of our Executive Compensation Program

The compensation program for our executive officers is designed to attract, motivate, reward and retain highly qualified individuals who can contribute to Sonic’s growth with the ultimate objective of improving stockholder value. Our compensation program consists of several forms of compensation: base salary, annual bonus, long-term incentives and limited perquisites and benefits.

Base salary and annual bonus are cash-based while long-term incentives consist of stock option awards. The Committee does not have a specific allocation goal between cash and equity-based compensation or between annual and long-term incentive compensation. Instead, the Committee relies on the process described in this discussion and analysis in its determination of compensation levels and allocations for each executive officer.

The Committee does not utilize objective guidelines or formulae, performance targets or short-term changes in our stock price to determine the elements and levels of compensation for our executive officers. Instead, it relies upon its collective judgment as applied to the challenges confronting Sonic, together with advice from independent consultants, information provided by Sonic and independent sources, and the recommendations of our Chief Executive Officer. The Committee also uses subjective information when considering the credentials, length of service, experience, consistent performance, and available competitive alternatives of our executive officers. The Committee receives and reviews a variety of information throughout the year to assist it in directing the executive compensation program. Throughout the year, the Committee reviews financial reports comparing Sonic’s performance on a year-to-date basis versus budget and at each meeting of the Board of Directors the executive officers present an operating report.

The recommendations of the Chief Executive Officer play a significant role in the compensation-setting process. The Chief Executive Officer provides the Committee with an annual overall assessment of Sonic’s achievements and performance, his evaluation of individual performance and his recommendations for annual compensation, bonus and long-term incentive awards. The Committee has discretion to accept, reject or modify the Chief Executive Officer’s recommendations.

The Committee determines the compensation for each executive officer in an executive session.

Market Competitiveness

The Committee's target is for total cash compensation to average between the 50th and 75th percentile of published compensation data derived from two sources: (i) a peer group of companies that are in our industry, competitors for key talent, or with similar financial characteristics; and (ii) published market survey data for companies within our revenue range. The peer group data was obtained from the most recently filed proxy statement of 14 publicly-traded technology companies with annual revenues ranging from \$16.5 million to \$30 million; market capitalization of \$5 million to \$55 million, five year revenue growth of at least 15% and employees of 200 or less. The following companies comprised the peer group for the study: A.D.A.M., Inc., Artificial Life Inc, Aware Inc., Bitstream, Inc., Entech Solar, Inc., Global Axxess Corp, Global Medical Technologies, Inc., Glowpoint, Inc., I.D. Systems, Inc., KIT Digital, Inc., Onstream Media Corporation, Onvia, Inc., Voxware, Inc. and Waytronx, Inc. Given competitive recruiting pressures, the Committee retains its discretion to deviate from this target under appropriate circumstances. The Committee periodically receives updates of the published compensation data.

Pay for Performance

The Committee believes that both long and short term compensation of executive officers should correlate to Sonic's overall financial performance. Incentive payouts will be larger with strong performance and smaller if Sonic's financial results decline. From time to time, extraordinary Board-approved initiatives in a fiscal year, such as a restructuring, acquisition, or divestiture, are considered by the Committee in its overall evaluation of Sonic's performance.

Competitive Benchmarking/Peer Group Analysis

The Committee reviewed market data from the American Electronics Association dated September 1, 2008("AeA") in various size and industry stratifications similar to that of Sonic.

The second source of compensation data came from a peer group of fourteen public companies that we consider similar to our market for sales, or for key talent, or with similar financial or other characteristics such as number of employees. The companies in the peer group ranged in market capitalization between \$5 million and \$55 million, had fewer than 200 employees, revenues between \$16.5 million and \$30 million and exhibited long-term revenue growth in excess of 15%.

Components of Executive Compensation

Base Salary

The Committee seeks to pay the executive officers a competitive base salary in recognition of their job responsibilities for a publicly held company. As noted above, the target compensation range for an executive's total cash compensation (salary and bonus) is between the 50th and 75th percentile of the market data reviewed by the Committee.

As part of determining annual increases, the Committee also considers the Chief Executive Officer's recommendation regarding individual performance as well as internal equitable considerations.

In evaluating individual performance, the Committee considers initiative, leadership, tenure, experience, skill set for the particular position, knowledge of industry and business, and execution of strategy in placing the individual within the range outlined.

In response to poor economic conditions management recommended to the Committee that no change be made to base salaries of any executive officer for fiscal 2010. The Committee accepted management's recommendation at a

meeting of the Committee held on November 25, 2009. Accordingly, base compensation for Mr. Buinevicius, Schmidt, Minor and Lipps was maintained at \$344,000, \$268,000, \$241,000 and \$185,000, respectively. After its review of all sources of market data as described above, the Committee believes that the base salaries and the bonuses described below are within its targeted range for total cash compensation.

Bonus

The Committee typically targets an annual cash bonus as a percentage of total cash compensation within the 50th to 75th percentile of market data as noted above. Recognizing that Sonic's internal budgets are based on pre-established financial goals, the evaluation of individual performance reflects a discretionary assessment by the Committee of each officer's contribution during the year. The Committee may consider factors such as general economic conditions, acquisitions, divestitures, or restructuring initiatives that may not have been contemplated when the financial budgets were developed. To aid in this evaluation, the Chief Executive Officer provides an overview of Sonic's financial metrics and performance, new product introductions, strategic initiatives, and investor relations activities for the year.

In an effort to conserve cash, management recommended to the Committee that no discretionary bonus be granted for fiscal 2009 performance to any executive officer. The Committee considered and approved management's recommendation at a Committee meeting held November 25, 2009. Mr. Lipps receives incentive compensation quarterly based upon achieving predetermined targets for product and services billings set during Sonic's business planning process. Total incentives paid to Mr. Lipps during fiscal 2009 totaled \$93,552.

Stock Options

The Committee has a long-standing practice of providing long-term incentive compensation grants to the executive officers. The Committee believes that such grants, in the form of stock options, help align our executive officers' interests with Sonic's stockholders. All stock options have been granted under either our 1995 Stock Option Plan, the 1999 Non-Qualified Plan or the 2009 Stock Incentive Plan ("Employee Plans").

The Committee reviews option grant recommendations by the Chief Executive Officer for each executive officer, but retains full discretion to accept, reject or revise each recommendation. The Committee's policy is to grant options on the date it approves them or such other future date as the Committee may agree at the time of approval. The exercise price is determined in accordance with the terms of the Employee Plan and cannot be less than the Fair Market Value, as defined in the Plan, of Sonic's common stock. The Committee typically grants options once a year, but may grant options to newly hired executives at other times.

In making its determinations, the Committee considers the number of options or shares owned by the executive officers.

On November 25, 2009, the Committee approved option grants to purchase 6,000 shares each to Messrs. Buinevicius, Schmidt, Minor and Lipps to be granted at the closing price of Sonic's stock on December 2, 2009, each of which will vest one third on the first, second and third anniversary of the grant.

Health and Welfare Benefits

Our officers are covered under the same health and welfare plans, including our 401(k) plan, as salaried employees.

Employment Agreements

We entered into employment agreements with Rimas P. Buinevicius and Monty R. Schmidt on substantially the same terms as the prior agreements in January 2001. The employment agreements automatically renew every two years for successive two year terms and were last automatically renewed on January 1, 2009. The salaries of each of Messrs.

Buinevicius and Schmidt are subject to increase each year at the discretion of the Board of Directors. Messrs. Buinevicius and Schmidt are also entitled to incidental benefits of employment under the agreements. Each of the employment agreements provides that if (i) Sonic Foundry breaches its duty under such employment agreement, (ii) the employee's status or responsibilities with Sonic Foundry has been reduced, (iii) Sonic Foundry fails to perform its obligations under such employment agreement, or (iv) after a Change in Control of Sonic Foundry, Sonic Foundry's financial prospects have significantly declined, the employee may terminate his employment and receive all salary and bonus owed to him at that time, prorated, plus three times the highest annual salary and bonus paid to him in any of the three years immediately preceding the termination. If the employee becomes disabled, he may terminate his employment and receive all salary owed to him at that time, prorated, plus a lump sum equal to the highest annual salary and bonus paid to him in any of the three years immediately preceding the termination. Pursuant to the employment agreements, each of Messrs. Buinevicius and Schmidt has agreed not to disclose our confidential information and not to compete against us during the term of his employment agreement and for a period of two years thereafter. Such non-compete clauses may not be enforceable, or may only be partially enforceable, in state courts of relevant jurisdictions.

A "Change in Control" is defined in the employment agreements to mean: (i) a change in control of a nature that would have to be reported in our proxy statement, ; (ii) Sonic Foundry is merged or consolidated or reorganized into or with another corporation or other legal person and as a result of such merger, consolidation or reorganization less than 75% of the outstanding voting securities or other capital interests of the surviving, resulting or acquiring corporation or other legal person are owned in the aggregate by our stockholders immediately prior to such merger, consolidation or reorganization; (iii) Sonic Foundry sells all or substantially all of its business and/or assets to any other corporation or other legal person, less than 75% of the outstanding voting securities or other capital interests of which are owned in the aggregate by our stockholders, directly or indirectly, immediately prior to or after such sale; (iv) any person (as the term "person" is used in Section 13(d) (3) or Section 14(d) (2) of the Securities Exchange Act of 1934 (the "Exchange Act") had become the beneficial owner (as the term "beneficial owner" is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of 25% or more of the issued and outstanding shares of our voting securities; or (v) during any period of two consecutive years, individuals who at the beginning of any such period constitute our directors cease for any reason to constitute at least a majority thereof unless the election, or the nomination or election by our stockholders, of each new director was approved by a vote of at least two-thirds of such directors then still in office who were directors at the beginning of any such period.

We entered into employment agreements with Kenneth A. Minor in October 2007 and Robert M. Lipps in August 2008. The salaries of each of Messrs. Minor and Lipps are subject to increase each year at the discretion of the Board of Directors. Messrs. Minor and Lipps are also entitled to incidental benefits of employment under the agreements. Each of the employment agreements provide that a cash severance payment be made upon termination, other than for cause. In the case of Mr. Minor, such cash severance is equal to the highest cash compensation paid in any of the last three fiscal years immediately prior to termination and with respect to Mr. Lipps, such cash severance payment is equal to the cash compensation paid in the previous fiscal year immediately prior to termination. In addition, Messrs. Minor and Lipps will receive immediate vesting of all previously unvested common stock and stock options and have the right to voluntarily terminate their employment, and receive the same severance arrangement detailed above following (i) any "person" becoming a "beneficial" owner of stock of Sonic Foundry representing 50% or more of the total voting power of Sonic Foundry's then outstanding stock; or, (ii) Sonic Foundry is acquired by another entity through the purchase of substantially all of its assets or securities and following such acquisition, Rimas Buinevicius does not remain as Chief Executive Officer and Chairman of the Board of Directors of Sonic Foundry or the acquisition is without the written consent of the Board of Directors of Sonic Foundry; or (iii) Sonic Foundry is merged with another entity, consolidated with another entity or reorganized in a manner in which any "person" is or becomes a "beneficial" owner of stock of the surviving entity representing 50% or more of the total voting power of the surviving entity's then outstanding stock; and Messrs. Minor or Lipps is demoted without cause or his duties are substantially altered. Pursuant to the employment agreements, each of Messrs. Minor and Lipps has agreed not to disclose our confidential information and not to compete against us during the term of his employment agreement and for a period of one year thereafter. Such non-compete clauses may not be enforceable, or may only be partially enforceable, in state courts of relevant jurisdictions.

For illustrative purposes, if Sonic terminated the employment of Messrs. Buinevicius, Schmidt, Minor and Lipps (not for cause) on September 30, 2009 or if Messrs. Buinevicius, Schmidt, Minor and Lipps elected to terminate their employment following a demotion or alteration of duties on September 30, 2009, and a change of control as defined in the employment agreements had occurred, Sonic would be obligated to pay \$1,109,000, \$895,000, \$272,000 and \$278,000 to Messrs. Buinevicius, Schmidt, Minor and Lipps, respectively. In addition, any non-vested rights of Messrs. Buinevicius, Schmidt, Minor and Lipps under the Employee Plans, would vest as of the date of employment termination. The value of the accelerated vesting of the options under these circumstances would be \$7,000 for Messrs. Buinevicius and Schmidt; \$18,000 for Mr. Minor and \$27,000 Mr. Lipps.

Personal Benefits

Our executives receive a limited number of personal benefits certain of which are considered taxable income to them and which are described in the footnotes to the section of this Proxy Statement entitled "Summary Compensation Table".

Internal Revenue Code Section 162(m)

Internal Revenue Code Section 162(m) limits the ability of a public company to deduct compensation in excess of \$1 million paid annually to each of the Chief Executive Officer and each of the other executive officers named in the Summary Compensation Table. There are exemptions from this limit, including compensation that is based on the attainment of performance goals that are established by the Committee and approved by the Company stockholders. No executive officer was affected by this limitation in fiscal 2009.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of Sonic has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Proxy Statement.

COMPENSATION COMMITTEE

David C. Kleinman, Chair
Gary R. Weis
Paul S. Peercy

Summary Compensation

The following table sets forth the compensation of our principal executive officer, our principal financial officer and our other two executive officers for the fiscal year ended September 30, 2009.

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$)(1) (d)	Stock Awards (\$) (e)	Option Awards (\$)(2) (f)	Non-Equity Incentive Plan Compensation (\$) (g)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$) (h)	All Other Compensation (\$)(3) (i)	Total (\$) (j)
Rimas P. Buinevicius Chairman and Chief Executive Officer	2009	342,471	—	—	29,412	—	—	1,766	373,649
	2008	277,539	30,000	—	21,997	—	—	1,610	338,143
	2007	309,534	60,000	—	7,770	—	—	10,314	387,618
Kenneth A. Minor Chief Financial Officer and Secretary	2009	239,967	—	—	50,796	—	—	14,799	305,562
	2008	198,243	31,800	—	51,402	—	—	7,841	289,286
	2007	212,310	60,000	—	7,770	—	—	16,457	296,537
Monty R. Schmidt Chief Technology Officer	2009	267,765	—	—	29,412	—	—	22,819	319,996
	2008	217,952	30,000	—	21,997	—	—	8,856	283,799
	2007	238,170	60,000	—	7,770	—	—	16,049	321,989
Robert M. Lipps Executive Vice President - Sales	2009	185,000	—	—	44,183	93,552	—	8,649	331,384
	2008	156,346	—	—	34,165	65,888	—	6,735	263,134

- (1) The amounts in column (d) represent cash bonuses which were awarded for performance during the prior fiscal year. Fiscal year 2008 bonuses are payable at a future date at the discretion of the executive and coincident with the payment to the Company of an equal amount for the exercise of certain options to purchase common stock.
- (2) The option awards in column (f) represent stock option grants for which Sonic recorded compensation expense during the fiscal year. Under the required FAS 123(R) methodology, the compensation expense reflected is for grants made in the fiscal year and grants made in prior years which continued to be expensed in the fiscal year. The full FAS 123(R) grant date fair value of the option awards granted in fiscal 2008 is included in column (l) in the "Grants of Plan-Based Awards" table included below in this Proxy Statement. The assumptions and methodology used in calculating the FAS 123(R) compensation expense of the option awards are provided in Sonic's Form 10-K. See Note 1, "Stock Based Compensation" in the Notes to the Consolidated Financial Statements in Sonic's Form 10-K. The amounts in this column represent our accounting expense for these awards and not necessarily the actual value that will be realized by the executive. There can be no assurance that the options will ever be exercised (in which case no value will be realized by the executive) or that the value on exercise will equal the FAS123(R) value.
- (3) The amount shown under column (i) includes Sonic's matching contribution under our 401(k) plan of \$0, \$9,599, \$10,711 and \$8,649 for Messrs Buinevicius, Minor, Schmidt and Lipps. In addition, Mr. Buinevicius receives a car allowance equal to \$713 per month of which the taxable personal portion of \$1,766 is included in this column. Messrs. Minor and Schmidt receive \$650 per month as a car allowance of which the taxable personal portions were \$5,200 and \$12,108, respectively. Mr. Lipps receives a car allowance of \$700 per month of which there was no taxable personal portion.

Grants of Plan-Based Awards

The Following table shows the plan-based awards granted to the Named Executive Officers during fiscal 2009.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All other stock awards: Number of Shares of stock or units	All other option awards: Securities Underlyin g Options	Exercise or base price of option awards (\$/Sh)	Grant Date fair Value of Stock and option awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Rimas P. Buinevicius	11/03/08	—	—	—	—	—	—	—	6,000	5.00	14,772
Kenneth A. Minor	11/10/08	—	—	—	—	—	—	—	6,000	5.30	15,660
Monty R. Schmidt	11/03/08	—	—	—	—	—	—	—	6,000	5.00	14,772
Robert M. Lipps	11/10/08	—	—	—	—	—	—	—	6,000	5.30	19,376

- (1) Sonic grants employee stock options with exercise prices equal to the closing stock price on the date of grant.
- (2) The amount reported in column (l) represents the grant date fair value of the award following the required FAS 123(R) compensation methodology. Grant date fair value is calculated using the Lattice method. See Note 1, “Stock Based Compensation” in the Notes to the Consolidated Financial Statements in Sonic’s Form 10-K for the fiscal year ended September 30, 2009 for an explanation of the methodology and assumptions used in the FAS 123(R) valuation. With respect to the option grants, there can be no assurance that the options will ever be exercised (in which case no value will be realized by the executive) or that the value on exercise will equal the FAS 123(R) value.

Sonic grants options to its executive officers under our employee stock option plans. As of September 30, 2009, options to purchase a total of 766,615 shares were outstanding under the plans, and options to purchase 405,399 shares remained available for grant thereunder.

Outstanding Equity Awards at Fiscal Year-End

The following table shows information concerning outstanding equity awards as of September 30, 2009 held by the Named Executive Officers.

Name (a)	<u>Option Awards</u>					<u>Stock Awards</u>			
	Number of Securities Underlying Unexercised Options (#) Exercisable (1)(2) (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)(2) (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d)	Option Exercise Price (\$) (1)(2) (e)	Option Expiration Date (1) (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)	Equity Incentive Plan Awards: Number of Shares, Other Rights That Have Not Vested (\$) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Other Rights That Have Not Vested (\$) (j)
Rimas P. Buinevicius	1,000	0	None	10.94	12/20/2010				
	10,000	0		10.94	12/20/2010				
	100,000	0		11.20	10/25/2011				
	5,000	0		14.50	11/26/2014				
	1,666	3,334		15.50	12/04/2017				
Kenneth A. Minor	6,000	0		5.00	11/03/2018				
	1,300	0	None	5.91	12/13/2009				
	1,000	0		10.94	12/20/2010				
	6,300	0		10.94	12/20/2010				
	594	0		10.10	10/09/2011				
	8,000	0		11.20	10/25/2011				
	10,000	0		4.20	05/09/2013				
Monty R. Schmidt	5,000	0		14.50	11/26/2014				
	4,000	8,000		15.50	12/04/2017				
	1,000	0	None	10.94	12/20/2010				
	8,000	0		10.94	12/20/2010				
	1,980	0		10.10	10/09/2011				
	5,000	0		14.50	11/26/2014				
	1,666	3,334		15.50	12/04/2017				
Robert M. Lipps	6,000	0		5.00	11/03/2018				
	2,500	0	None	22.60	04/10/2016				
	500	250		37.10	12/07/2016				
	500	1,000		15.50	12/04/2017				
	833	1,667		7.50	03/10/2018				
	3,333	6,667		7.80	04/16/2018				
	0	6,000		5.30	11/10/2018				

- (1) All options were granted under either our shareholder approved Employee Stock Option Plans or the Non-Qualified Stock Option Plan. All unexercisable options listed in the table become exercisable over a three-year period in equal annual installments beginning one year from the date of grant.
- (2) All options have been adjusted for the one-for-ten reverse stock split of the Company's shares completed on November 16, 2009.

Option Exercises and Stock Vested

The following table shows information concerning option exercises in fiscal 2009 by the Named Executive Officers.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Kenneth A. Minor	6,000	(600)	—	—

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	521,957	18.44	405,399
Equity compensation plans not approved by security holders (2)	244,658	11.36	-
Total	766,615	16.17	405,399

- (1) Consists of the Employee Stock Option Plan and the Directors Stock Option Plan. For further information regarding these plans, reference is made to Sonic's 2009 Form 10-K in Note 7 of the financial statements.
- (2) Consists of the Non-Qualified Stock Option Plan. For further information regarding this plan, reference is made to Sonic's 2009 Form 10-K in Note 7 of the financial statements.

Compensation Committee Interlocks and Insider Participation

The members of the Executive Compensation Committee of Sonic's Board of Directors for Fiscal 2009 were those named in the Executive Compensation Committee Report. No member of the Committee was at any time during Fiscal 2009 or at any other time an officer or employee of Sonic Foundry, Inc.

No executive officer of Sonic Foundry, Inc. has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers serving as a member of the Board of Directors of Sonic Foundry.

PROPOSAL TWO: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors, upon the recommendation of the Audit Committee, has appointed the firm of Grant Thornton LLP (“GT”) as independent auditors to audit our financial statements for the year ending September 30, 2010, and has further directed that management submit the selection of independent public accountants for certification by the stockholders at the annual meeting. Representatives of GT are expected to be present at the annual meeting to respond to stockholders' questions and to have the opportunity to make any statements they consider appropriate.

Stockholder ratification of the selection of GT as our independent auditors is not required by our Bylaws or otherwise. However, the Board is submitting the selection of GT to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Board and the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board and the Audit Committee in their discretion may direct the appointment of a different independent accounting firm at any time during the year if they determine that such a change would be in the best interests of Sonic and its stockholders.

The ratification of the appointment of GT as independent public accountants requires the approval of a majority of the votes cast by holders of our shares. Shares may be voted for or withheld from this matter. Shares that are withheld and broker non-votes will have no effect on this matter because ratification of the appointment of GT requires a majority of the shares cast. Brokers may have discretionary authority to vote for this matter if the broker has not received instructions from the beneficial owner.

Recommendation of Board of Directors

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR PROPOSAL 2 RATIFYING THE APPOINTMENT OF GT AS INDEPENDENT AUDITORS FOR SONIC FOUNDRY.

Relations with Independent Auditors

GT has served as our independent public accountants since its appointment in July 2004. As stated in Proposal 2, the Board has selected GT to serve as our independent auditors for the fiscal year ending September 30, 2010.

Audit services performed by GT for Fiscal 2009 and 2008 consisted of the examination of our financial statements, review of fiscal quarter results, services related to filings with the Securities and Exchange Commission (SEC). We also retained GT to perform certain audit related services associated with the audit of our benefit plan, and tax preparation and consultative services associated with the preparation of Federal and State tax returns. Fiscal 2009 and 2008 tax fees also included international tax services and additional sales and use tax services. All fees paid to GT were reviewed, considered for independence and upon determination that such payments were compatible with maintaining such auditors' independence, approved by Sonic's audit committee prior to performance.

Fiscal Years 2009 and 2008 Audit Firm Fee Summary

During fiscal years 2009 and 2008, we retained GT to provide services in the following categories and amounts:

	<u>Years Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
Audit Fees	\$ 117,511	\$ 165,049
Audit Related	9,360	10,920
Tax Fees	36,751	45,035
Other Fees	—	—

All of the services described above were approved by Sonic's audit committee prior to performance. The Audit Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Audit Committee at its next scheduled meeting. The audit committee has determined that the payments made to its independent accountants for these services are compatible with maintaining such auditors' independence.

REPORT OF THE AUDIT COMMITTEE ¹

The Audit Committee's role includes the oversight of our financial, accounting and reporting processes, our system of internal accounting and financial controls and our compliance with related legal and regulatory requirements, the appointment, engagement, termination and oversight of our independent auditors, including conducting a review of their independence, reviewing and approving the planned scope of our annual audit, overseeing the independent auditors' audit work, reviewing and pre-approving any audit and non-audit services that may be performed by them, reviewing with management and our independent auditors the adequacy of our internal financial controls, and reviewing our critical accounting policies and the application of accounting principles. The Audit Committee held five meetings during fiscal 2009.

Mssrs. Kleinman, Weis and Peercy meet the rules of the SEC for audit committee membership and are "independent" as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act and under Nasdaq listing standards. In August 2009, the Board approved revisions to the Audit Committee Charter to reflect new rules and standards set forth in certain SEC regulations as well as changes to Nasdaq listing standards. A copy of the Audit Committee Charter is available on Sonic's website.

As set forth in the Audit Committee Charter, management of Sonic is responsible for the preparation, presentation and integrity of Sonic's financial statements and for the effectiveness of internal control over financial reporting. Management and the accounting department are responsible for maintaining Sonic's accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing Sonic's financial statements and expressing an opinion as to their conformity with generally accepted accounting principles.

We have reviewed and discussed with our independent auditors, GT, matters required to be discussed pursuant to Statement on Auditing Standards No. 61 (Communications with Audit Committees). We have received from the auditors a formal written statement describing the relationships between the auditor and Sonic that might bear on the auditor's independence consistent with applicable requirements of the Public Company Accounting Oversight Board. We have discussed with GT matters relating to its independence, including a review of both audit and non-audit fees, and considered the compatibility of non-audit services with the auditors' independence.

The members of the Audit Committee are not full-time employees of Sonic and are not performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards. Members of the Committee necessarily rely on the information provided to them by management and the independent accountants. Accordingly, the Audit Committee's considerations and discussions referred to above do not assure that the audit of Sonic's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that Sonic's auditors are in fact "independent".

¹ The material in this report is not "soliciting material", is not deemed filed with the SEC, and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in such filing.

We have reviewed and discussed with management and GT the audited financial statements. We discussed with GT the overall scope and plans of their audit. We met with GT, with and without management present, to discuss results of their examination and the overall quality of Sonic's financial reporting.

Based on the reviews and discussions referred to above and our review of Sonic's audited financial statements for fiscal 2009, we recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2009, for filing with the SEC.

Respectfully submitted,

AUDIT COMMITTEE

David C. Kleinman, Chair

Gary R. Weis

Paul S. Percy

CERTAIN TRANSACTIONS

Frederick H. Kopko, Jr., a director and stockholder of Sonic Foundry, is a partner in McBreen & Kopko. Pursuant to the 1997 Directors' Stock Option Plan, Mr. Kopko has been granted options to purchase 6,000 shares of Common Stock at exercise prices ranging from \$17.40 to \$598.80 and was granted options to purchase 4,000 shares of Common Stock at exercise prices ranging from \$5.50 to \$8.00 pursuant to the 2008 Non-Employee Directors Plan. During fiscal 2009, we paid the Chicago law firm of McBreen & Kopko certain compensation for legal services rendered subject to standard billing rates.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Sonic's officers and directors, and persons who own more than ten percent of the Common Stock, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely upon a review of Forms 3 and Forms 4 furnished to us pursuant to Rule 16a-3 under the Exchange Act during our most recent fiscal year, to Sonic Foundry's knowledge, all reporting persons complied with all applicable filing requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, except with respect with Mssrs. Schmidt and Weis, who each inadvertently filed one late Form 4 report and Mr. Buinevicius who inadvertently filed two late Form 4 reports.

Code of Ethics

Sonic has adopted a Code of Ethics (as defined in Item 406 of Regulation S-K) that applies to its principal executive, financial and accounting officers. Sonic Foundry will provide a copy of its code of ethics, without charge, to any investor that requests it. Requests should be addressed in writing to Mr. Kenneth Minor, Corporate Secretary, 222 West Washington Ave, Madison, WI 53703.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Any stockholder who desires to contact our Board or specific members of our Board may do so electronically by sending an email to the following address: *directors@sonicfoundry.com*. Alternatively, a stockholder can contact our Board or specific members of our Board by writing to: Secretary, Sonic Foundry Incorporated, 222 West Washington Avenue, Madison, WI 53703.

Each communication received by the Secretary will be promptly forwarded to the specified party following normal business procedures. The communication will not be opened but rather will be delivered unopened to the intended recipient. In the case of communications to the Board or any group or committee of Directors, the Secretary will open the communication and will make sufficient copies of the contents to send to each Director who is a member of the group or committee to which the envelope is addressed.

STOCKHOLDER PROPOSALS FOR 2011 ANNUAL MEETING OF STOCKHOLDERS

Requirements for Stockholder Proposals to be Considered for Inclusion in Sonic's Proxy Materials. Stockholders of Sonic may submit proposals on matters appropriate for stockholder action at meetings of Sonic's stockholders in accordance with Rule 14a-8 promulgated under the Securities Exchange Act of 1934. For such proposals to be included in Sonic's proxy materials relating to its 2011 Annual Meeting of Stockholders, all applicable requirements of Rule 14a-8 must be satisfied and such proposals must be received by Sonic no later than the anniversary date of 120 days prior to the date of this proxy statement (September 30, 2010). Such proposals should be delivered to Corporate Secretary, Sonic Foundry, Inc., 222 West Washington Avenue, Madison, Wisconsin 53703.

Requirements for Stockholders Proposals to be Brought Before the Annual Meeting.

Sonic's bylaws provide that, except in the case of proposals made in accordance with Rule 14a-8, for stockholder nominations to the Board of Directors or other proposals to be considered at an annual meeting of stockholders, the stockholder must have given timely notice thereof in writing to the Secretary not less than ninety nor more than one hundred twenty calendar days prior to the anniversary of the date on which Sonic held its immediately preceding annual meeting of stockholders. To be timely for the 2011 Annual Meeting of Stockholders, a stockholder's notice must be delivered or mailed to and received by Sonic's Secretary at the principal executive offices of Sonic between November 4, 2010 and December 4, 2010. However, in the event that the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, to be timely, notice by the stockholders must be so received not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth calendar day following the date on which public announcement of the date of the annual meeting is first made. In no event will the public announcement of an adjournment of an annual meeting of stockholders commence a new time period for the giving of a stockholder's notice as provided above. A stockholder's notice to Sonic's Secretary must set forth the information required by Sonic's bylaws with respect to each matter the stockholder proposes to bring before the annual meeting.

In addition, the proxy solicited by the Board of Directors for the 2011 Annual Meeting of Stockholders will confer discretionary authority to vote on (i) any proposal presented by a stockholder at that meeting for which Sonic has not been provided with notice on or prior to the anniversary date of 45 days prior to the date of this proxy statement (December 14, 2010) and (ii) any proposal made in accordance with the bylaws provisions, if the 2011 proxy statement briefly describes the matter and how management's proxy holders intend to vote on it, if the stockholder does not comply with the requirements of Rule 14a-4(c)(2) under the Securities Exchange Act of 1934.

OTHER MATTERS

The Board of Directors has at this time no knowledge of any matters to be brought before this year's Annual Meeting other than those referred to above. However, if any other matters properly come before this year's Annual Meeting, it is the intention of the persons named in the proxy to vote such proxy in accordance with their judgment on such matters.

GENERAL

A copy of our Annual Report to Stockholders for the fiscal year ended September 30, 2009 is being mailed, together with this Proxy Statement, to each stockholder. Additional copies of such Annual Report and of the Notice of Annual Meeting, this Proxy Statement and the accompanying proxy may be obtained from us. We will, upon request, reimburse brokers, banks and other nominees, for costs incurred by them in forwarding proxy material and the Annual Report to beneficial owners of Common Stock. In addition, directors, officers and regular employees of Sonic and its subsidiaries, at no additional compensation, may solicit proxies by telephone, telegram or in person. All expenses in connection with soliciting management proxies for this year's Annual Meeting, including the cost of preparing, assembling and mailing the Notice of Annual Meeting, this Proxy Statement and the accompanying proxy are to be paid by Sonic.

Sonic will provide without charge (except for exhibits) to any record or beneficial owner of its securities, on written request, a copy of Sonic's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended September 30, 2009, including the financial statements and schedules thereto. Exhibits to said report, and exhibits to this proxy statement, will be provided upon payment of fees limited to Sonic's reasonable expenses in furnishing such exhibits. Written requests should be directed to Investor Relations, 222 West Washington Avenue, Madison, Wisconsin 53703. We also make available, free of charge, at the "Investor Information" section of our website, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, our proxy statement, amendments and exhibits to such reports as soon as practicable after the filing of such reports, exhibits and proxy statements with the Securities and Exchange Commission.

In order to assure the presence of the necessary quorum at this year's Annual Meeting, and to save Sonic the expense of further mailings, please date, sign and mail the enclosed proxy promptly in the envelope provided. No postage is required if mailed within the United States. The signing of a proxy will not prevent a stockholder of record from voting in person at the meeting.

By Order of the Board of Directors,


Kenneth A. Minor, Secretary

January 28, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal period ended September 30, 2009

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number

1-14007

SONIC FOUNDRY, INC.

(Exact name of registrant as specified in its charter)

MARYLAND

(State or other jurisdiction of incorporation or organization)

39-1783372

(I.R.S. Employer Identification No.)

222 W. Washington Ave, Madison, WI 53703
(Address of principal executive offices)

(608) 443-1600
(Issuer's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common stock par value \$0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$21,860,000.

The number of shares outstanding of the registrant's common equity was 3,606,922 as of December 1, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference into Part III. A definitive Proxy Statement pursuant to Regulation 14A will be filed with the Commission no later than January 28, 2010.

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Explanatory Note:

Effective November 16, 2009, Sonic Foundry, Inc. implemented a one-for-ten reverse split of its stock. All share amounts and per share data in this Annual Report on Form 10-K have been adjusted to reflect this reverse stock split.

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Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2009

When used in this Report, the words “anticipate”, “expect”, “plan”, “believe”, “seek”, “estimate” and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include, but are not limited to, statements about the features, benefits and performance of our Rich Media products, our ability to introduce new product offerings and increase revenue from existing products, expected expenses including those related to selling and marketing, product development and general and administrative, our beliefs regarding the health and growth of the market for Rich Media products, anticipated increase in our customer base, expansion of our products functionalities, expected revenue levels and sources of revenue, expected impact, if any, of legal proceedings, the adequacy of liquidity and capital resources, and expected growth in business. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, market acceptance for our products, our ability to attract and retain customers and distribution partners for existing and new products, our ability to control our expenses, our ability to recruit and retain employees, the ability of distribution partners to successfully sell our products, legislation and government regulation, shifts in technology, global and local business conditions, our ability to effectively maintain and update our products and service portfolio, the strength of competitive offerings, the prices being charged by those competitors, and the risks discussed elsewhere herein. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

PART I

ITEM 1. BUSINESS

Who We Are

Sonic Foundry, Inc. is a web communications technology leader, providing webcasting, lecture capture and knowledge management solutions for higher education institutions, businesses and government agencies worldwide. Powered by our patented webcasting platform, Mediasite®, Sonic Foundry empowers people to transform the way they communicate. We help our customers connect within a dynamic, evolving world of shared knowledge and envision a future where learners and workers around the globe use webcasting to bridge time and distance; accelerate research, productivity and growth; and reduce the environmental impact of traditional education and business communications.

Sonic Foundry solutions include:

- Mediasite Recorders for capturing multimedia presentations
- Mediasite EX Server platform for streaming, archiving and managing online presentation content
- Sonic Foundry Event Services for turnkey event webcasting based on the Mediasite platform
- Sonic Foundry Services for hosting, installation, training and custom development
- Mediasite Customer Assurance for annual hardware and software maintenance and technical support

Today, nearly 1,800 customers using more than 3,500 Mediasite Recorders in presentation venues around the world are capturing hundreds of thousands of multimedia presentations with millions of viewers.

Sonic Foundry, Inc. was founded in 1991, incorporated in Wisconsin in March 1994 and merged into a Maryland corporation of the same name in October 1996. Our executive offices are located at 222 West Washington Ave., Madison, Wisconsin 53703 and our telephone number is (608) 443-1600. Our corporate website is www.sonicfoundry.com. In the “Investor Information” section of our website we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports required to be filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after the filing of such reports with the Securities and Exchange Commission.

Sonic Foundry, Inc.
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Challenges We Address

Every organization faces a fundamental need to communicate information efficiently to individuals who need it. Universities and colleges need to connect lecturers with students for advanced learning. Corporations strive for successful communication and collaboration between colleagues to provide value to customers. Government agencies must keep partners, stakeholders and constituents informed to operate effectively. And yet, communication and e-learning challenges remain, including:

Ensuring students' academic and professional success

- Enabling learners to watch or review course material to improve retention and positively impact grades
- Providing distance learners with the same quality education as on-campus students
- Helping students balance education, career and family commitments
- Increasing enrollment without the expense of new classrooms and facilities
- Capturing complex graphics where visual clarity is essential for learning

Connecting with a geographically-dispersed audience

- Simultaneously addressing people in multiple locations
- Holding meetings when it is not feasible for everyone to attend
- Transmitting timely information that is crucial for all to receive
- Requiring employees, regardless of time zone or schedule, to attend training

Improving productivity and overall organizational knowledge

- Avoiding the need for participants to leave their desks to attend a meeting or training
- Maintaining productivity while in training
- Reducing time to train new hires
- Increasing retention by avoiding distractions, interruptions or absence
- Keeping everyone on the same page to prevent false starts and forgotten directives
- Documenting meeting content for later review
- Maintaining a rich library of organizational knowledge
- Documenting and preserving expertise from a retiring workforce

Reducing logistical and financial impacts

- Cutting travel expenses and carbon footprints
- Eliminating repetition of the same presentation to different audiences
- Reducing repeated costs for printing, mailing and meeting expenses

Avoiding cumbersome and restrictive technologies

- Maintaining the way presenters present without requiring technical expertise in presentation systems
- Capturing and sharing knowledge in real-time without pre-authoring or pre-uploading of content or needing substantial post-production time
- Removing significant time and specialized expertise to manage presentation systems

Sonic Foundry Solutions

Sonic Foundry is changing the way organizations share and use information. Our solutions include:

- Mediasite Recorders for capturing multimedia presentations
- Mediasite EX Server platform for streaming, archiving and managing online presentation content
- Sonic Foundry Event Services for turnkey event webcasting based on the Mediasite platform
- Sonic Foundry Services for hosting, installation, training and custom development
- Mediasite Customer Assurance for annual hardware and software maintenance and technical support

Sonic Foundry, Inc.
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Mediasite Recorders are designed with presenters in mind. They automatically record what presenters say and show, without changing how they present, and webcast it online. Mediasite Recorders automate the capture and delivery of any presenter's audio, video and presentation graphics as high resolution, interactive presentations that can be immediately watched via the web – live or on-demand. The result is the industry's simplest workflow, eliminating time-consuming authoring, slide uploads and post-production work. Plus, seamless integration with existing audio/video and educational technology means organizations can confidently scale multimedia webcasting throughout their academic or corporate enterprise.

We offer Mediasite Recorders for the following environments:

- A room-based Mediasite Recorder (RL Series) for presentation facilities like conference and training rooms, lecture halls, auditoriums and classrooms
- A mobile Mediasite Recorder (ML Series) for portability to off-site events, conferences, trade shows or multiple venues throughout an organization

Accompanying all Mediasite Recorders is the Mediasite Editor, a desktop software tool allowing users to edit their presentations, if desired, before publishing them to the web.

Mediasite EX Server Platform is a powerful platform for delivering and managing live and on-demand webcasts. It greatly simplifies content management by providing a single system to schedule, catalog, customize, secure, track and integrate recorded presentations. It brings order and control to valuable content libraries by making it easy to manage hundreds of system users, thousands of recorded hours and as many viewers as needed.

Mediasite EX Server allows organizations to:

- Save time and staffing by scheduling presentations to be automatically recorded without an operator
- Automatically create customizable and searchable online content catalogs without web development or integration skills
- Secure presentations and Mediasite system access for authorized users
- Customize and brand their presentation content, incorporate audience interactivity through polls and Q&A
- Support closed captions to provide viewers a richer presentation experience while meeting federal or state accessibility mandates
- Track and report on viewing activity to see who is watching what presentations when and to analyze viewing patterns that may correlate to improved learning outcomes, increased performance or program effectiveness
- Centrally monitor and control the recording functions of multiple simultaneous Mediasite Recorders for increased operator efficiency
- Integrate Mediasite content into other course/learning/contentmanagement systems, web portals, blogs or online community sites
- Leverage existing network technologies for content distribution efficiency and performance
- Reliably scale to meet the webcasting needs of departmental and enterprise-wide implementations alike
- Choose the deployment model that best suits their environment, whether on-premise or hosted in the Sonic Foundry datacenter

Sonic Foundry Event Services equips customers with a team of trained technicians who work on-site to webcast conferences and events. Event webcasting:

- Enhances attendee experience with online presentation catalogs
- Reaches a wider audience, making presentations available to those not able to attend
- Brands presentations using organization logos, colors and messages
- Reviews a real-time record of what took place
- Links handout materials with the full presentation, including audio, video and graphics
- Offers sample content to entice new attendees to participate

Sonic Foundry, Inc.
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Sonic Foundry Services enable organizations to quickly and easily take advantage of the Mediasite platform, without having to wade through the IT or network complexities associated with their own infrastructure. Sonic Foundry Services include:

- **Hosting or Software as a Service (SaaS):** Our pay-as-you-go service offerings provide content hosting, delivery and management of Mediasite content using Sonic Foundry's data center and infrastructure. These managed services allow organizations of all sizes to jump start their web communications initiatives quickly and simply. They provide a low-risk way to implement online multimedia communications before bringing hosting requirements in-house and can offer a hassle-free long-term solution.
- **Installation:** Sonic Foundry provides onsite consulting and installation services to help customers optimize their deployment and efficiently integrate Mediasite within their existing AV and IT infrastructures, processes and workflows.
- **Training:** To maximize customers' return on investments, skilled trainers provide the necessary knowledge transfer so organizations feel confident in using, managing and leveraging Mediasite's capabilities. On-site training is customized to specific requirements and skill levels, while online training provides convenient anytime access to a web-based catalog of training modules.
- **Custom Development:** Sonic Foundry streamlines how Mediasite interfaces with a customer's specific technologies, internal policies, workflow or content delivery systems through project-based development.

Mediasite Customer Assurance provides customers annually renewable maintenance and support plans for their Mediasite solutions – giving them access to Sonic Foundry technical expertise and Mediasite software updates. With a Mediasite Customer Assurance contract, customers are entitled to:

- Software upgrades and updates for Mediasite Recorders and Servers
- Unlimited technical support assistance
- Extension of their recorder hardware warranty
- Advanced Recorder hardware replacement
- Authorized access to the Mediasite Customer Assurance Portal where they can access software available for download, documentation, knowledge base articles, tutorials, online training and technical resources at any time.

The majority of our customers purchase a Customer Assurance plan when they purchase Mediasite Recorders or Servers.

What Sets Mediasite Apart?

- **Ease of use** – We believe that presenters should not need to know anything about the technology that is facilitating their online communication. Automated or schedule-based recording simplifies what has previously been a technical and complex workflow. As a result, presenters can present as they normally do, which enables non-technical, line of business and subject matter experts to feel comfortable communicating via Mediasite. Similarly, viewers need nothing more than a web browser to watch Mediasite presentations.
- **Comprehensive content management** – We understand the need to bring order to a growing presentation library so content can be found, used and re-purposed to derive maximum value. Organizations must find ways to manage that content, and Sonic Foundry believes a complete solution focuses not only on the recording of knowledge, but also the retention and management of that knowledge in a system specifically designed for rich media. Mediasite automatically creates searchable online catalogs that index and organize presentations with customizable playback experiences. With integration support for leading enterprise directories, all content can be secured to allow/deny access to specific groups or individuals based on roles and permissions. Mediasite also allows organizations to track and generate reports for every presentation and/or user of the system, letting them see exactly who is watching what, when and how long.
- **Reliability** – Whether starting at the department level with a couple rooms or at the enterprise level with a campus- or company-wide implementation, Mediasite was developed to be the single platform to confidently and reliably scale to organizations' webcasting needs. Nearly 1,800 customers around the world depend on

Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2009

Mediasite and its proven design to webcast critical information, enrich daily communications and retain their organizational knowledge.

- **Dynamic multimedia experience** – The Mediasite experience takes into account different individual learning styles – auditory, visual and kinesthetic – providing an interactive format that engages the viewer via different modalities to increase content comprehension and retention. We understand that learning materials and supporting visuals come in many different forms, and Mediasite Recorders’ flexible capture options support input from any laptop application, tablet PC, electronic whiteboard, document camera, medical instrumentation and more. (Many other webcast solutions focus on PowerPoint as the predominant or only source of content and may not support video.) In November 2006, the United States Patent and Trademark Office granted Sonic Foundry a patent on Mediasite’s unique method to capture and automatically index and synchronize what the presenter says (audio and video) with visual aids (RGB-based presentation content) and instantly stream them both over the Internet. Mediasite is also the first lecture capture solution to offer a fully Microsoft® Silverlight®-enabled Player which provides a more dynamic, user-controlled viewing experience. Adding to Mediasite’s interactivity is the ability to incorporate polls, Q&A or links to other related reference materials supporting the learning process. Support for video closed captioning benefits those with hearing disabilities, but also allows all users to use keyword search to pinpoint and play back content of interest within a Mediasite presentation.
- **Software as a Service (SaaS) deployment option** – To minimize IT challenges, network infrastructure issues and expertise required to install, configure and maintain Mediasite within the enterprise, Sonic Foundry hosting provides organizations a low-risk method of using the complete Mediasite platform within a state-of-the-art datacenter.
- **Customer service** – Sonic Foundry and the growing Mediasite community provide a reliable, collaborative support network for all Mediasite customers. Our breadth of field-based system engineers and responsive customer care ensure that customers have readily available resources committed to their success. The Mediasite User Group (MUG), now over 900 members strong, is one of the most vibrant, diverse and rapidly expanding user communities for lecture capture, online training and e-learning. MUG members share ideas and get feedback from community experts through online forum discussions, participate in live quarterly meetings to exchange best practices and network at UNLEASH, the annual Mediasite User Conference.

Sonic Foundry Solutions in Higher Education and the Enterprise

Sonic Foundry solutions are rapidly emerging as the standard for recording, delivering and managing one-to-many multimedia webcasts for higher education and corporate, healthcare or government enterprises

Sonic Foundry solutions in higher education:

Among post-secondary institutions, Mediasite is used for:

- Online lectures (blended/hybrid learning): students review content outside of in-class instruction
- Distance learning: off-campus students learn remotely online
- Continuing education: professionals learn online or supplement classroom experiences
- Faculty training and development
- Research and collaboration: faculty document and present findings
- Recruitment and orientation: campus tours, financial aid instructions
- Special events: commencement, guest speakers
- University business: leadership meetings, alumni relations, outreach

Through interviews, many higher education institutions report that Mediasite:

- Improves student learning outcomes
 - Lets students watch and re-watch presentations at their convenience, boosting information retention
 - Replicates the in-class experience for online students or those unable to attend class
 - Contributes to enhanced grades
 - Caters to different learning modalities – audio, visual, kinesthetic
- Enables their institution to remain competitive
 - Allows quick development and delivery cost-effective online programs
 - Supports higher enrollment and/or tuition without new classrooms

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- Improves student retention and matriculation
- Helps attract students and faculty
- Empowers faculty
 - Allows them to teach as usual without learning new technology
 - Promotes greater in-class interactivity rather than copious note-taking
 - Improves student outcomes
 - Enables knowledge sharing and collaboration with colleagues
- Boosts campus outreach
 - Bolsters recruitment efforts
 - Captures and preserves campus events
 - Enhances alumni relations

Given the technology pedigree of today's college students, this move to online learning makes perfect sense as most of these students have never known a world without personal computers and the web. The delivery options for a modern education are akin to the electronic delivery of music that emerged several years ago. Students demand immediate access to their coursework regardless of time or place.

Recent trends such as the slowing economy and lingering high fuel prices continue to drive more students, particularly adult learners, to online education – through enrollment in blended or hybrid courses with a traditional on-campus component or through fully online distance learning programs. Historically, graduate programs and STEM (science, technology, engineering and math)-oriented degree programs in schools of medicine, nursing, engineering or business have comprised the majority of the company's academic customer base. We are now experiencing heightened market demand for lecture capture within undergraduate and community college programs as well.

According to The November 2008 Sloan Consortium report, *Staying the Course: Online Education in the United States, 2008*, online enrollments the past several years have been growing considerably. The 12.9 percent growth rate for online enrollments far exceeds the 1.2 percent growth of the overall higher education student population. In the 2007 fall term, over 3.9 million, or more than 20 percent of all U.S. higher education students, were taking at least one online course, a 12 percent increase over the previous year.

Community colleges, specifically, have significantly increased their number of blended or hybrid and web-enhanced courses. The Instructional Technology Council's "2008 Distance Education Survey Results: Tracking the Impact of eLearning at Community Colleges (April 2009)" shows that overall, 74 percent of community colleges offer at least one "online degree", meaning at least 70 percent of the required course work is offered online. Sixty-four percent of community colleges plan to increase the number of "blended courses", for which 30 to 79 percent of course content is delivered online, with some face-to-face meetings. The most recent data indicates no signs of these online learning trends slowing.

In September 2008, Sonic Foundry sponsored a research project with the University of Wisconsin E-Business Institute which resulted in the study, "Insights Regarding Undergraduate Preference for Lecture Capture." A survey was sent to 29,078 undergraduate and graduate students at the University of Wisconsin-Madison in April 2008. Average response rate exceeded 25 percent. Of the survey participants, a significant number of undergraduates (47 percent) have taken a class in which lectures were recorded and made available online. Eighty-two percent of the undergraduates in the sample strongly preferred a course that records and streams lecture content online versus a course that only features in-room instruction. Students reported better retention, improved ability to review for exams and greater engagement during classes with lecture capture. Over half of the undergraduates indicated that, even after course completion, having course material available online would be important and that there was interest in accessing online material in their professional lives. Over 60 percent of the sample was willing to pay for lecture capture services. Of those willing to pay, the majority of undergraduates (69 percent) expressed a preference to pay on a course-by-course basis rather than having lecture capture fees bundled with existing technology fees.

Several universities have conducted their own independent studies to assess the impact of Mediasite on student performance. Penn State Hershey Medical Center and College of Medicine, a Mediasite campus since January 2004, deployed a pilot program at the onset of the 2007-2008 academic year to record lectures to first year medical

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students. During this academic year, lectures were viewed a total of 22,451 times, averaging 59.1 views per lecture by a class of 154 students. Mediasite use increased throughout the academic year, with 97 percent of students using Mediasite to review lectures by the semester's end. Almost half of the students surveyed (41 percent) cited reviewing complicated material as the number one motivator for using Mediasite. The majority (88 percent) agreed that Mediasite helps them achieve their educational goals. Much fewer (25 percent) said podcasting had the same effect. Faculty members reported that recording their lectures did not decrease class attendance. The survey also revealed a correlation between the grading method and the use of Mediasite. Students watch lectures more often via Mediasite for classes where grades are awarded as honors, high pass, pass and fail versus simply pass/fail.

The Paul Merage School of Business at the University of California, Irvine, surveyed students in its 2007-2008 MBA for Executives and MBA for Health Care Executives programs. Ninety-one percent used Mediasite to view lectures, 71 percent found they were more engaged in lectures when they didn't have to focus on taking copious notes and 83 percent said they learned more in courses when lectures were available on demand. The survey also determined that 93 percent of the students would choose an MBA program that produces mediasite course content over a school with traditional in-class instruction alone. Furthermore, 82 percent would pay higher tuition for a program that streams and archives instruction, with almost half willing to pay between \$2,000 and \$5,000 more for their two-year degree.

To remain relevant, colleges and universities are striving to differentiate themselves through technical leadership as a means to attract these tech-savvy students, while balancing their campus technology improvements with systems that faculty will embrace and adopt. As a result, the education market is beginning to restructure and increase investments around online learning. We believe the visible integration of multimedia learning content into core university applications and the success of bundled online learning technology solutions are two healthy indicators for the widespread adoption of online campus lectures.

To date, Sonic Foundry has installed Mediasite in the larger lecture halls and classrooms of campuses nationwide. We now see more and broader expansions and integrations of Mediasite at the campus-wide level. Course and learning management systems like Blackboard®, Moodle, Desire2Learn®, Angel, or Sakai are ubiquitous in the education enterprise. As the foundation for e-learning, these systems are rapidly moving beyond simply aggregating related course documents (handouts, assignments, course syllabi) to becoming students' single-source portal for all course-related materials including recorded multimedia content like online lectures. Mediasite's packaged integrations for Blackboard and Moodle, the leading course management systems used in higher education, address the need to make learning content accessible to students when and where they need it.

Sonic Foundry Solutions in the Enterprise:

Within medium to large corporate, healthcare and government enterprises, Mediasite has numerous applications.

In corporate enterprises it is used for:

- Executive communications: state of the enterprise speeches, all-hands meetings
- Workforce development: training, HR briefings, policy documentation
- Sales and marketing: demonstrations, product announcements, webinars, channel relations
- Internal knowledge repositories: technical training, research collaboration, user-generated content
- Customer support: product tutorials, self-guided troubleshooting
- Investor relations: earnings calls, analyst briefings, annual reports
- Conferences and events

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In health-related enterprises it is used for:

- Education: CME, grand rounds, seminars, student/patient simulations
- On-demand medical information
- Caregiver training
- Emergency response coordination
- Public health announcements
- Research and collaboration
- Conferences and events

In government agencies it is used for:

- Program management: relief work, military coordination, emergency preparedness
- Community outreach: committee meetings, public safety announcements
- Training, workshops and events
- Executive and legislative communications: constituent relations, public speeches, debates

Through interviews across these verticals, enterprise customers report that Mediasite:

- Expands training and communications opportunities
 - Enables them to offer training to more and larger audiences
 - Captures knowledge from a retiring workforce
 - Supports the creation and sharing of user-generated content
 - Aides in building a knowledge library
 - Extends the life of conferences and events
- Cuts travel and meeting expenses
 - Eliminates redundant speaking engagements
 - Opens communication channels with dispersed audiences regardless of location or time zone
 - Provides the ability to address everyone at once
- Boosts efficiency
 - Enables immediate communication of time-sensitive information
 - Delivers the message directly to the desktop to reduce downtime
 - Allows participants to watch when it's convenient to avoid interruptions and increase retention
 - Reduces new hire training time
- Helps build stronger teams
 - Fosters direct management/employee communications
 - Supports more frequent, clearer communication with colleagues and staff
 - Keeps all employees aligned
 - Cultivates team morale and collaboration

Less than a decade ago, the only people in the enterprise talking openly about online multimedia were AV specialists in IT or media services units, and even these people were skeptical about what benefits streaming would hold for the enterprise. Now, knowledge workers, executives, event planners and people in training, sales, human resources and research and development are pushing for online multimedia and webcasting as part of their e-learning initiatives. They have a business need to be seen and heard by their colleagues, and the return on investment (ROI) for multimedia online learning is real and measurable.

Claire Schooley, senior analyst with Forrester Research, Inc., wrote in the April 2009 report, *The ROI of eLearning*, "Online learning earns companies a positive ROI in less than a year. If you have a business that is spread across many locations, it makes good business sense to implement an online learning program as a replacement for some face-to-face learning and as a complement to other instructor-led training in the form of blended learning. Whether employees take compliance training, desktop skills development, or leadership training, online learning is flexible, consistent, and repeatable with minimal travel costs. The keys to success include excellent eLearning content that engages the learner; good change management plans for this new way of learning; and technology that is scalable and easy to use to manage the learning." She goes on to state that "Outside of subject areas where face-to-face interaction is necessary, recent research indicates that no significant differences exist in the effectiveness of learning

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through classroom, online, or self-study. Self-paced eLearning allows learners to assimilate content at their own speed – often 20% to 50% faster than in a classroom”

Gartner vice president and distinguished analyst, Carol Rozwell, echoes the value of e-learning in the January 2009 report, *Key Issues for Corporate Learning Systems, 2009*. She states, “Getting people ‘up to speed’ quickly and efficiently is critical for all roles, but especially for those positions with a high turnover rate, such as sales and customer support. Reducing ‘time to competency’ demands that employees, customers and business partners are connected to high-quality learning content so they can achieve workplace performance objectives. In times of financial stress, interest in e-learning increases. It gives learners the opportunity for training without the expense of travel and it allows the company to support ‘green’ initiatives.”

The technology market for enterprise streaming solutions that support many e-learning and business communications initiatives is growing as well. In Wainhouse Research’s, *Enterprise Streaming Products Market Size and Forecast (July 2009)*, senior analyst and partner, Ira Weinstein, estimates the enterprise streaming products market (which includes content capture and management solutions and related services for installation, training and support) to be \$365 million. This market will expand to \$1.039 billion by 2013 with Weinstein projecting annual growth rates to stabilize in the mid-30% range in the latter portion of the 2009-2013 forecast period.

Future Directions

Because webcasting and lecture capture are becoming an everyday part of the way people work and learn, we are driven to shorten the time it takes people not only to capture and share their information but also to find the information they need. While today leading universities use Mediasite for lecture capture and corporations webcast training and executive communications, we envision a future where people around the globe use webcasting to bridge time and distance; accelerate research, productivity and growth; and reduce the environmental impact of traditional education and business communications. As a company, we are helping create the libraries of tomorrow with technology that does not compound the world’s information overload. We are working to put a human face on all online knowledge, and we believe the world will be more knowledgeable and more connected as a result.

Supporting this vision, our ongoing innovations center on:

- Developing deployment options to meet the webcasting needs for organizations of all sizes. This includes:
 - Significant investment, development and evolution of our current Mediasite hosting platform to provide Software as a Service (SaaS). This alternative to traditional on-premise deployments provides an ideal way to minimize IT challenges and potential webcasting risks while affordably extending high performance, fault tolerant webcasting to small and large customers alike.
 - Content capture innovations that economically scale across entire organizations, allowing anyone to record and share their knowledge or expertise.
- Integrating with and embedding Mediasite content into enterprise portals, learning and course management systems, content management repositories, blogs and online communities.
- Enabling context-based viewing of multimedia webcasts within online environments that enable and encourage discussion around the content and synchronized with it.
- Supporting content playback experiences on additional platforms and popular mobile computing devices.
- Evolving Mediasite’s content management capabilities to accommodate organizations’ existing digital video assets.
- Continuing development of keyword search within and across archived multimedia presentations.

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Segment Information

We have determined that in accordance with FASB ASC-280-10, we operate in only one segment as we do not disaggregate profit and loss information on a segment basis for internal management reporting purposes to our chief operating decision maker. Therefore, such information is not presented.

We have included the cash effect of billings not recorded as revenue, which are deferred for GAAP purposes, in arriving at non-GAAP net income or loss. Our services are typically billed and collected in advance of providing the service which requires minimal cost to perform in the future. Billings are a better indicator of customer activity and cash flow than revenue is, in management's opinion, and is therefore used by management as a key operational indicator. Billings is computed by combining revenue with the change in unearned revenue. Total billings for Mediasite product and support outside the United States totaled 28 percent and 19 percent in 2009 and 2008, respectively.

Our largest individual customers are typically value added resellers ("VARs") and distributors since the majority of our end users require additional complimentary products and services which we do not provide. Accordingly, in fiscal 2009 and 2008 a master distributor, Synnex Corporation ("Synnex"), contributed 29 percent and 44 percent, respectively, of total world-wide billings. As a master distributor, Synnex fulfills transactions to VARs, end users and other distributors. No other customer represented over 10 percent in 2008 or 2009.

Sales

We sell and market our offerings through a sales force that manages a channel of value-added resellers, system integrators, consultants and distributors. These third party representatives specialize in understanding both audio/video systems and IT networking. In fiscal 2009, we utilized two master distributors in the U.S. and over 100 resellers, and sold our products to nearly 1,000 total end users. Our focus has been primarily in the United States and primarily to customers we have identified as having the greatest potential for high use; that is, organizations with presenters, trainers, lecturers, marketers and leaders who have a routine need to communicate to many people in higher education, government, health and certain corporate markets. Despite our primary attention on the North American market, reseller and customer interest outside of North America has grown and accordingly, we allocated three sales professionals to address international demand. To date, we have sold our products to customers in over 40 countries outside the United States. Total billings for Mediasite product and support outside the United States totaled 28 percent and 19 percent in fiscal 2009 and 2008, respectively.

Vertical market expansion: Over half our revenue is realized from the education market. Recent trends such as high gas prices and the slowing economy are driving more students, particularly adult learners, to seek online education options. Similarly, demand for lecture capture within undergraduate, community college and blended learning programs is beginning to demonstrate growth. This development represents an emerging trend beyond the traditional academic customer base for the company, which has primarily consisted of graduate, distance learning and technical degree programs.

For our higher education as well as corporate, government and association clients, we anticipate weakening economic conditions will expand market demand for more outsourced services versus licensed sales. Over the last two years, the company has made extensive capital and technology investments to advance its services model with turnkey event webcasting, comprehensive hosting/Software as a Service (SaaS), and e-commerce capabilities that position us well to deliver more diversified business services.

With the launch of our Event Services group in 2007, we continue to see growing demand for conference and event webcasting. These event-based communication, education and training applications, combined with outsourced webcasting services, are expected to drive the company's corporate sales activities going forward.

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Repeat orders: Many customers initially purchase a small number of Mediasite Recorders to test or pilot in a department, school or business unit. A successful pilot project and the associated increase in webcasting demand from other departments or schools leads to follow up, multiple Recorder orders as well as increased Mediasite Server capacity. In fiscal 2009, 62 percent of billings were to preexisting customers compared to 59 percent in fiscal 2008.

Renewals: As is typical in the industry, we offer annual support and maintenance service contract extensions for a fee to our customer base.

Marketing

Marketing efforts span the spectrum of product demonstrations, tradeshow, websites, webinars, brochures, direct mail, e-mail campaigns, newsletters, print and online advertising, sponsorships, white papers and analyst relations. We often request and receive press release quotes and written or multimedia testimonials from satisfied, high-profile reference customers, particularly those that demonstrate innovative and valuable uses of the Mediasite platform and Event Services. We solicit respected industry magazines and trade organizations to review our product and use advisors as introductions to new channels or customers. We have a large, growing database of potential customers in the education, government and corporate marketplaces and have established a process of targeting specific verticals that have a direct and demonstrated need for our offerings.

Operations

We contract with third parties to build the hardware of our Mediasite Recorders and purchase quantities sufficient to fill specific customer orders, including purchases of inventory by resellers. Quantities are maintained in inventory by the third party providers and shipped directly to the end customer or reseller. The hardware manufacturers provide a limited one-year warranty on the hardware, which we pass on to our customers who purchase a Mediasite Customer Assurance support and maintenance plan. We have an alternate source of manufacturing for some of the products we produce and believe there are numerous additional sources and alternatives to the existing production process. To date, we have not experienced any material difficulties or delays in the manufacture and assembly of our products or material returns due to product defects.

OTHER INFORMATION

Competition

In the lecture capture and webcasting market we face competition from various companies that provide related, but different, communication technologies. These include:

- **Web conferencing** includes solutions from Adobe, Cisco (WebEx), Microsoft and Citrix. Although part of the overall online multimedia communications landscape, these solutions are designed primarily for collaborative communications versus one-to-many communications like Mediasite. Many organizations acknowledge that they need both technologies – one-to-many webcasting and collaborative web conferencing – to appropriately address their different communication requirements.
- **Video conferencing** includes solutions from Polycom, TANDBERG (now Cisco) and Sony. These solutions are designed primarily for one-to-one or group communications with high levels of interactivity and collaboration. Like web conferencing, many organizations use both video conferencing and webcasting. Mediasite integrates with videoconferencing endpoints from Polycom and TANDBERG to record and manage interactive meetings, discussions and distance learning courses alongside other Mediasite content.
- **Authoring tools** include solutions like Accordent PresenterPLUS, Camtasia Studio and Microsoft Producer. Unlike webcasting, web conferencing or video conferencing, which are forms of online multimedia communication that capture and distribute/stream content, these solutions are production-oriented tools designed to create and edit

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multimedia content only. Some organizations will use these desktop tools to create training content by manually integrating existing audio, video, images, branding and other visual elements into a multimedia presentation which can then be published to a web or streaming server for distribution. This process can require a significant amount of production effort and user expertise in presentation authoring.

- **Online video services** and virtual meeting platforms include solutions from inXpo, Livestream, ON24, Stream57, Thomson Reuters, Unisfair and Wall Street Webcasting. These companies offer services or SaaS-based platforms that either allow audio and video to be captured from a presenter's computer (often with supporting materials uploaded in advance), produced streaming video services or 2D/3D virtual environments that may or may not include rich media webcasts.

Other vendors such as Echo360, Tegrity, Accordent Technologies and Panopto, provide lecture capture or webcasting capabilities, but differ in their technology approach, particularly in the lecture capture arena. Mediasite is an appliance- or room-based platform for lecture capture. It provides a full integrated system designed around an automated purpose-built recording appliance that captures, publishes and manages rich media content. Room-based appliances are capable of streaming live or on-demand and can leverage the full breadth of in-room audio/visual technology. Transparent recording automation means no presenter intervention which leads to the broadest end-user adoption across campus. A room-based platform like Mediasite also includes a complete content management platform for captured multimedia presentations. Other lecture capture solutions are implemented as software applications designed to capture and publish rich media content, but dependent upon a third-party content management platform, typically the institution's course management system. Software applications for lecture capture support on-demand streaming only and require in-room PC integration with varying levels of presenter intervention and recording knowledge which may lead to lower adoption rates throughout the campus. Lastly, laptop-resident desktop tools capture and publish non-rich media (limited video and presentation graphics). Like software applications they support on-demand streaming only and require a third-party content management platform. Desktop tools require the greatest degree of presenter intervention, technical confidence and support. While prevalent on many campuses, these three factors limit the practicality for campus-wide adoption.

Some current and potential customers have developed their own home-grown webcasting or lecture capture solutions which may compete with Mediasite. However, we often find many of these organizations are now looking for a solution that requires less internal maintenance and effort, offers comprehensive management capabilities and a less cumbersome workflow.

The more successful we are in the growing market for lecture capture and webcasting, the more competitors are likely to emerge. We believe that the principal competitive factors in our market include:

- Ease of use and application transparency to the user
- Content management and scalability to address enterprise requirements
- Reliability and performance
- Security of content, applications and services
- Ability to integrate with third-party solutions and services
- Flexible deployment and acquisition options to suit various budgets
- Customer service and support
- A significant reference-able customer base
- Ability to introduce new products and services to the market in a timely manner

Two leading industry analyst firms recognize Sonic Foundry's Mediasite as the leading, best-of-breed platform for lecture capture. Frost & Sullivan awarded Sonic Foundry consecutive Market Leadership Awards for Lecture Capture based on the market analyses in their World Presentation Assembly and Management Platforms reports (2009 and 2007). The Frost & Sullivan Award for Market Leadership is given to the company that exhibits market share leadership through the implementation of market strategy. Wainhouse Research also recognizes Mediasite as a streaming and lecture capture market leader for distance education and elearning in their report, The Distance Education and e-Learning Landscape V2 (December 2008). Among Wainhouse's evaluation criteria are innovation, market understanding, overall viability, product strategy and customer experience. According to the report, Sonic

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Foundry ranks highest from the perspective of depth of overall blend of products and ranks among the leaders in its ability to execute.

Intellectual Property

The status of United States patent protection in the Internet industry is not well defined and will evolve as the U.S. Patent and Trademark Office grants additional patents. Currently two U.S patents that have been issued to us, and four U.S. patent applications are pending. We may seek additional patents in the future. We do not know if our pending patent applications or any future patent application will result in any patents being issued with the scope of the claims we seek, if such patents are issued at all. We do not know whether the patents which were recently approved or any patents we may receive in the future will be challenged, invalidated or be of any value. It is difficult to monitor unauthorized use of technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States, and our competitors may independently develop technology similar to ours. We will continue to seek patent and other intellectual property protections, when appropriate, for those aspects of our technology that we believe constitute innovations providing significant competitive advantages. Our pending, and any future, patent applications may not result in the issuance of valid patents.

Our success depends in part upon our rights to proprietary technology. We rely on a combination of copyright, trade secret, trademark and contractual protection to establish and protect our proprietary rights. We have registered seven U.S. and four foreign country trademarks. We require our employees to enter into confidentiality and nondisclosure agreements upon commencement of employment. Before we will disclose any confidential aspects of our services, technology or business plans to customers, potential business distribution partners and other non-employees, we routinely require such persons to enter into confidentiality and nondisclosure agreements. In addition, we require all employees, and those consultants involved in the deployment of our services, to agree to assign to us any proprietary information, inventions or other intellectual property they generate, or come to possess, while employed by us. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our services or technology. These precautions may not prevent misappropriation or infringement of our intellectual property.

Third parties may infringe or misappropriate our copyrights, trademarks and similar proprietary rights. In addition, we may be subject to claims of alleged infringement of patents and other intellectual property rights of third parties. We may be unaware of filed patent applications which have not yet been made public and which relate to our services.

Intellectual property claims may be asserted against us in the future. Intellectual property litigation is expensive and time-consuming and could divert management's attention away from running our business. Intellectual property litigation could also require us to develop non-infringing technology or enter into royalty or license agreements. These royalty or license agreements, if required, may not be available on acceptable terms, if at all. Our failure or inability to develop non-infringing technology or license the proprietary rights on a timely basis would harm our business.

Research and Development

We believe that our future success will depend in part on our ability to continue to develop new business, and to enhance our existing business. Accordingly, we invest a significant amount of our resources in research and development activities. During each of the fiscal years ended September 30, 2009 and 2008, we spent \$3.5 million on internal research and development activities in our business. These amounts represent 19% and 23%, respectively, of total revenue in each of those years.

Employees

As of September 30, 2009 and 2008, we had 93 and 91 full-time employees, respectively. Our employees are not represented by a labor union, nor are they subject to a collective bargaining agreement. We have never experienced a work stoppage and believe that our employee relations are satisfactory.

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ITEM 1A. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE MAKING AN INVESTMENT DECISION. THE RISKS DESCRIBED BELOW ARE NOT THE ONLY ONES WE FACE. ADDITIONAL RISKS THAT WE ARE NOT PRESENTLY AWARE OF OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. OUR BUSINESS COULD BE HARMED BY ANY OR ALL OF THESE RISKS. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE SIGNIFICANTLY DUE TO ANY OF THESE RISKS, AND YOU MAY LOSE ALL OR PART OF YOUR INVESTMENT. IN ASSESSING THESE RISKS, YOU SHOULD ALSO REFER TO THE OTHER INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS ANNUAL REPORT ON FORM 10-K, INCLUDING OUR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES.

Economic conditions could materially adversely affect the Company.

The Company's operations and performance depend significantly on worldwide economic conditions. Uncertainty about current global economic conditions poses a risk as businesses, educational institutions and government entities may cancel or postpone spending in response to tighter credit, negative financial news, declines in income or asset values and/or reduced public sector funding, which could have a material negative effect on the demand for the Company's products and services and on the Company's financial condition and operating results.

The current financial turmoil affecting the banking system and financial markets have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from the credit crisis on the Company's business, including insolvency of key suppliers resulting in products delays, inability of customers, including channel partners, to obtain credit to finance purchases of the Company's products and/or customer, including channel partner insolvencies; and inability of our channel partners and other customers to pay accounts receivable owed to us, or delays in the payment of such receivables. Additionally, if these economic conditions persist, our intangible assets may be impaired. If we determine that the fair value of intangible assets is less than its carrying value, we would then measure impairment based on a comparison of the implied fair value of the intangible assets with the carrying amount of the intangible assets. To the extent the carrying amount is greater than the implied fair value, we would record an impairment charge for the difference.

Economic conditions may have a disproportionate affect on the sale of our products.

Many of our customers will look at the total A/V equipment and labor cost to outfit a typical conference room or lecture hall as one amount for budgetary purposes. Consequently, although our products represent only a portion of the total cost, the entire project of outfitting a room or conference hall may be considered excessive and may not survive budgetary constraints. Alternatively, our resellers may modify their quotes to end customers by eliminating our products or substituting less expensive competitive products in order to win opportunities within budget constraints. Event service partners may similarly suggest that customers eliminate recording and webcasting as a means of reducing event cost. Consequently, declines in spending by government, educational or corporate institutions due to budgetary constraints may have a disproportionate impact on the Company and result in a material adverse impact on our financial condition.

We may need to raise additional capital if we do not quickly become profitable.

At September 30, 2009 we had cash of \$2.6 million and availability under our line of credit facility with Silicon Valley Bank of \$0.8 million. The Company has historically financed its operations primarily through cash from sales of equity securities, cash from operations, and to a limited extent, through bank credit facilities. The Company has incurred losses from operations in each of the last three fiscal years. In response to the recurring operating losses, the Company initiated cost reduction efforts in January 2008. These efforts achieved a reduction in quarterly operating expenses

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of approximately 24%. The Company anticipates operating expenses to remain at or near these reduced levels in fiscal 2010. The Company achieved billings growth in fiscal 2009 of approximately 8% over 2008 and believes its cash position is adequate to accomplish its business plan through at least the next twelve months even if billings are unchanged from fiscal 2009.

We may evaluate further operating or capital lease opportunities to finance equipment purchases in the future and expect to utilize the Company's revolving line of credit to support working capital needs. While the Company anticipates that it will be in compliance with all provisions of the agreement, there can be no assurance that the existing Loan Agreement will remain available to the Company nor that additional financing will be available or on terms acceptable to the Company.

The business environment is not currently conducive to raising additional debt or equity financing and may not improve in the near term. If we borrow money, we may incur significant interest charges, which could harm our profitability. Holders of debt would also have rights, preferences or privileges senior to those of existing holders of our common stock. If we raise additional equity, the terms of such financing may dilute the ownership interests of current investors and cause our stock price to fall significantly. We may not be able to secure financing upon acceptable terms, if at all. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could seriously harm our business, operating results, and financial condition

We have a history of losses.

For the year ended September 30, 2009, we had a gross margin of \$14.2 million on revenue of \$18.6 million with which to cover selling, marketing, product development and general administrative costs. Our selling, marketing, product development and general administration costs have historically been a significant percentage of our revenue, due partly to the expense of developing leads and the relatively long period required to convert leads into sales associated with selling products that are not yet considered "mainstream" technology investments. For the years ended September 30, 2009 and 2008 our cash used in operations was (\$1.5) and (\$3.9) million, respectively. Although we expect our operations to continue to improve in fiscal 2010, we may never achieve or sustain profitability on a quarterly or annual basis.

We could lose revenues if there are changes in the spending policies or budget priorities for government funding of colleges, universities, schools and other education providers.

Most of our customers and potential customers are public colleges, universities, schools and other education providers who depend substantially on government funding. Accordingly, any general decrease, delay or change in federal, state or local funding for colleges, universities, schools and other education providers could cause our current and potential customers to reduce their purchases of our products and services, or to decide not to renew service contracts, either of which could cause us to lose revenues. In addition, a specific reduction in governmental funding support for products such as ours would also cause us to lose revenues. The severe economic downturn experienced in the U.S. and globally has caused many of our clients to experience severe budgetary pressures, which has and will likely continue to have a negative impact on sales of our products. Continuing unfavorable economic conditions may result in further budget cuts and lead to lower overall spending, including information technology spending, by our current and potential clients, which may cause our revenues to decrease. In addition, our accounts receivable may increase and the relative aging of our receivables may deteriorate if our clients delay or are unable to make their payments due to the tightening of credit markets and the lack of available funding. Also, because many of our clients begin their fiscal year in July or later, easing of budgetary pressure may not occur until late fiscal 2010.

If we are unable to comply with NASDAQ's continued listing requirements, our common stock could be delisted from the NASDAQ Capital Market.

In March 2008, our common stock failed to maintain a minimum bid price of \$1.00 for at least 10 consecutive days, which caused our stock price to fail to meet one of the minimum standards required by the NASDAQ Stock Market for continued listing as a NASDAQ Global Market security. On March 10, 2008 we received a letter from NASDAQ

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indicating that we need to regain compliance with the minimum bid price requirement by September 8, 2008 in order to remain on the NASDAQ Global Market. On September 9, 2008 we were notified by NASDAQ that we had failed to regain compliance with the minimum bid price during the 180 days provided and our securities were therefore subject to delisting from the NASDAQ Global Market. In response, we applied for and were notified on September 12, 2008 by NASDAQ that NASDAQ approved our request to transfer the listing of our shares to the NASDAQ Capital Market. Transfer to the NASDAQ Capital Market and compliance with its initial listing standards afforded an additional 180 day period for our stock to attain the minimum \$1.00 bid price for at least 10 consecutive business days until March 9, 2009. We received notice from NASDAQ on October 22, 2008, December 23, 2008 and March 24, 2009 that NASDAQ had determined to extend the suspension of the minimum bid price for additional 90 day periods. On July 14, 2009, we received notice from NASDAQ that enforcement of the minimum bid price requirement would be reinstated on August 3, 2009. The Company had 141 calendar days remaining in its bid price compliance period when suspension began, extending the period in which to regain compliance to December 21, 2009. On November 2, 2009 the Company notified NASDAQ that it intended to execute a reverse split of its stock in the ratio of one for ten, effective November 16, 2009. On December 2, 2009, the Company received notice from NASDAQ that the Company had regained compliance with the minimum bid requirement and the matter was now closed. While there is no pending listing compliance issue with NASDAQ, there is no assurance that the Company will not fail one or more listing requirements in the future. If our stock is delisted, it may have a material adverse effect on the price of our common stock and the levels of liquidity currently available to our stockholders. Delisting would also make it more difficult for us to raise capital in the future or impact customer confidence. If our common stock is removed from the NASDAQ Capital Market, an investor could find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common shares. Additionally, our stock may then be subject to "penny stock" regulations.

If a sufficient number of customers do not accept our products, our business may not succeed.

We cannot predict how the market for our products will develop, and part of our strategic challenge will be to convince enterprise customers of the productivity, improved communications, cost savings, suitability and other benefits of our products. Our future revenue and revenue growth rates will depend in large part on our success in delivering these products effectively, creating market acceptance for these products, and meeting customer's needs for new or enhanced products. If we fail to do so, our products will not achieve widespread market acceptance, and we may not generate significant revenue to offset our product development and selling and marketing costs, which will hurt our business.

We may not be able to innovate to meet the needs of our target market.

Our future success will continue to depend upon our ability to develop new products or product enhancements that address future needs of our target markets and to respond to these changing standards and practices. Our revenue could be reduced if we do not capitalize on our current market leadership by timely developing innovative new products or product enhancements that will increase the likelihood that our products will be accepted in preference to the products of our current and future competitors.

Multiple unit sales may fail to materialize.

We need to sell multiple units to educational, corporate and government institutions in order to sell most efficiently and become profitable. In fiscal 2009, 62% of revenue was to existing customers compared to 59% in fiscal 2008. In particular, selling multiple units to corporate customers has lagged results achieved in the higher education market; consequently, we have allocated more resources to the higher education market. While we have addressed a strategy to leverage existing customers and close multiple unit transactions, a customer may choose not to make expected purchases of our products. The failure of our customers to make expected purchases will harm our business.

If our marketing and lead generation efforts are not successful, our business will be harmed.

We believe that continued marketing efforts will be critical to achieve widespread acceptance of our products. Our marketing campaign may not be successful given the expense required. For example, failure to adequately generate and develop sales leads could cause our future revenue growth to decrease. In addition, our inability to generate and cultivate sales leads into large organizations, where there is the potential for significant use of our products, could

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have a material effect on our business. We may not be able to identify and secure the number of strategic sales leads necessary to help generate marketplace acceptance of our products. If our marketing or lead-generation efforts are not successful, our business and operating results will be harmed.

The length of our sales and deployment cycle is uncertain, which may cause our revenue and operating results to vary significantly from quarter to quarter and year to year.

During our sales cycle, we spend considerable time and expense providing information to prospective customers about the use and benefits of our products without generating corresponding revenue. Our expense levels are relatively fixed in the short-term and based in part on our expectations of future revenue. Therefore, any delay in our sales cycle could cause significant variations in our operating results, particularly because a relatively small number of customer orders represent a large portion of our revenue.

Our largest potential sources of revenue are educational institutions, large corporations and government entities that often require long testing and approval processes before making a decision to purchase our products, particularly when evaluating our products for inclusion in new buildings under construction or high dollar transactions. In general, the process of selling our products to a potential customer may involve lengthy negotiations, collaborations with consultants, designers and architects, time consuming installation processes and changes in network infrastructure in excess of what we or our VARs are able to provide. As a result, our sales cycle is unpredictable. Our sales cycle is also subject to delays as a result of customer-specific factors over which we have little or no control, including budgetary constraints and internal approval procedures.

Our products are aimed toward a broadened user base within our key markets and these products are relatively early in their product life cycles. We cannot predict how the market for our products will develop and part of our strategic challenge will be to convince targeted users of the productivity, improved communications, cost savings and other benefits. Accordingly, it is likely that delays in our sales cycles with these products will occur and this could cause significant variations in our operating results.

Sales of some of our products have experienced seasonal fluctuations which have affected sequential growth rates for these products, particularly in our first fiscal quarter. For example, there is generally a slowdown for sales of our products in the higher education and corporate markets in the first fiscal quarter of each year. Seasonal fluctuations could negatively affect our business, which could cause our operating results to fall short of anticipated results for such quarters.

Our operating results are hard to predict as a significant amount of our sales typically occur at the end of a quarter and the mix of product and service orders may vary significantly.

Revenue for any particular quarter is extremely difficult to predict with any degree of certainty. We typically ship products within a short time after we receive an order and therefore, we typically do not have an order backlog with which to estimate future revenue. In addition, orders from our channel partners are based on the level of demand from end-user customers. Any decline or uncertainty in end-user demand could negatively impact end-user orders, which could in turn significantly negatively affect orders from our channel partners in any given quarter. Accordingly, our expectations for both short and long-term future revenue is based almost exclusively on our own estimate of future demand based on the “pipeline” of sales opportunities we manage, rather than on firm channel partner orders. Our expense levels are based largely on these estimates. In addition, the majority of our orders are received in the last month of a quarter; thus, the unpredictability of the receipt of these orders could negatively impact our future results. We historically have received all or nearly all our channel partner orders in the last month of a quarter and often in the last few days of the quarter. Accordingly, any significant shortfall in demand for our products in relation to our expectations would have an adverse impact on our operating results.

We have experienced growing demand for our hosting and event services as well as a growing preference from our corporate customers in purchasing our solution as a service (SaaS). As a result, we expect that service billings as a percentage of total billings will continue to grow which we believe will ultimately lead to higher gross margins and

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more recurring revenue. The percentage of billings represented by service is also likely to fluctuate from quarter to quarter due to seasonality of event services and other factors. Since services are typically billed in advance of providing the service, revenue is initially deferred, leading to reduced current period revenue with a corresponding negative impact to profits or losses in periods of significant growth in billings for deferred services. An increase, or significant fluctuation, in service billings as a percentage of total billings may therefore lead to a temporary decline in our reported revenue.

We are subject to risks associated with our channel partners' product inventories and product sell-through.

We sell a significant amount of our products to Synnex, Starin and other channel partners who maintain their own inventory of our products for sale to dealers and end-users. If these channel partners are unable to sell an adequate amount of their inventory of our products in a given quarter to dealers and end-users or if channel partners decide to decrease their inventories for any reason, such as a recurrence of global economic uncertainty and downturn in technology spending, the volume of our sales to these channel partners and our revenue would be negatively affected. In addition, if channel partners decide to purchase more inventory, due to product availability or other reasons, than is required to satisfy end-user demand or if end-user demand does not keep pace with the additional inventory purchases, channel inventory could grow in any particular quarter, which could adversely affect product revenue in the subsequent quarter. In addition, we also face the risk that some of our channel partners have inventory levels in excess of future anticipated sales. If such sales do not occur in the time frame anticipated by these channel partners for any reason, these channel partners may substantially decrease the amount of product they order from us in subsequent periods, which would harm our business.

If stock balancing returns or price adjustments exceed our reserves, our operating results could be adversely affected.

We provide some of our distributors with stock balancing return rights, which generally permit our distributors to return products, subject to ordering an equal dollar amount of alternate products. We also provide price protection rights to most of our distributors. Price protection rights require that we grant retroactive price adjustments for inventories of our products held by distributors if we lower our prices for those products within a specified time period. To cover our exposure to these product returns and price adjustments, we establish reserves based on our evaluation of historical product trends and current marketing plans. However, we cannot be assured that our reserves will be sufficient to cover our future product returns and price adjustments. If we inadequately forecast reserves, our operating results could be adversely affected.

We depend in part on the success of our relationships with third-party resellers and integrators.

Our success depends on various third-party relationships, particularly with our international and events services operations. The relationships include third party resellers as well as system integrators that assist with implementations of our products and sourcing of our products and services. Identifying partners, negotiating and documenting relationships with them and maintaining their relationships require significant time and resources from us. In addition, our agreements with our resellers and integrators are typically non-exclusive and do not prohibit them from working with our competitors or from offering competing products or services. Our competitors may be effective in providing incentives to third parties to favor their products or services. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to maintain or grow our revenue could be impaired and our operating results would suffer.

Manufacturing disruption or capacity constraints would harm our business.

We subcontract the manufacture of our recorders to one third-party contract manufacturer and subcontract the manufacture of our rack-unit recorder and a proprietary component with another third-party contract manufacturer. Although we believe there are multiple sources of supply from other contract manufacturers as well as multiple suppliers of component parts required by the contract manufacturers, a short term disruption of supply of component parts or completed products near the end of a quarter would have a negative impact on our revenues. Moreover, any incapacitation of the manufacturing site due to destruction, natural disaster or similar events could result in a loss of product inventory. As a result of any of the foregoing, we may not be able to meet demand for our products, which

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could negatively affect revenues in the quarter of the disruption or longer depending upon the magnitude of the event, and could harm our reputation.

Our cash flow could fluctuate due to the potential difficulty of collecting our receivables.

A significant portion of our sales are fulfilled by VARs, regional distributors or master distributors. As an example, 29% of our billings in 2009 were to Synnex, a master distributor who fulfills demand from other distributors, VARs or end users. While our distributors and VARs typically maintain payment terms consistent with other end users, a delay in payment may occur as a result of a number of factors including changes in demand, general economic factors, financial performance, inventory levels or disputes over payments. Any delay from Synnex, or other large distributors or VARs could have a material impact on the collections of our receivables during a particular quarter.

Over the past year we have begun to expand the level of sales representation in Europe and Asia as well as other international regions. We offer credit terms to some of our international customers; however, payments tend to go beyond terms in certain countries. Therefore, as Europe, Asia and other international regions grow as a percentage of our revenue, accounts receivable balances will likely increase as compared to previous years.

Accounting regulations and related interpretations and policies, particularly those related to revenue recognition, cause us to defer revenue recognition into future periods for portions of our products and services.

Revenue recognition for our products and services is complex and subject to multiple sources of authoritative guidance as well as varied interpretations and implementation practices for such rules. These rules require us to defer revenue recognition in certain situations. Factors that are considered in revenue recognition include those such as vendor specific objective evidence (VSOE), the inclusion of other services and contingencies to payment terms. We expect that we will continue to defer portions of our product and service billings because of these factors. The amounts deferred may be significant and will vary each quarter depending on the mix of products sold in each market and geography, as well as the actual contract terms.

Additional changes in authoritative guidance or changes in practice in applying such rules could also cause us to defer the recognition of revenue to future periods or recognize lower revenue

Because most of our service contracts are renewable on an annual basis, a reduction in our service renewal rate could significantly reduce our revenues.

Our clients have no obligation to renew their content hosting agreements, customer support contracts or other annual service contracts after the expiration of the initial period, which is typically one year, and some clients have elected not to do so. A decline in renewal rates could cause our revenues to decline. We have limited historical data with respect to rates of renewals, so we cannot accurately predict future renewal rates. Our renewal rates may decline or fluctuate as a result of a number of factors, including client dissatisfaction with our products and services, our failure to update our products to maintain their attractiveness in the market or budgetary constraints or changes in budget priorities faced by our clients.

Because we generally recognize revenues ratably over the term of our service contracts, downturns or upturns in service transactions will not be fully reflected in our operating results until future periods.

We recognize most of our revenues from service contracts monthly over the terms of their agreements, which are typically 12 months, although terms can range from less than one month to over 36 months. As a result, much of the service revenue we report in each quarter is attributable to agreements entered into during previous quarters. Consequently, a decline in sales, client renewals, or market acceptance of our products in any one quarter will not necessarily be fully reflected in the revenues in that quarter, and will negatively affect our revenues and profitability in future quarters. This ratably revenue recognition also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new clients must be recognized over the applicable agreement term.

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There is a great deal of competition in the market for our products, which could lower the demand for our products.

In the lecture capture and webcasting market we face competition from various companies that provide related, but different, communication technologies. These include:

- **Web conferencing** includes solutions from Adobe, Cisco (WebEx), Microsoft and Citrix. Although part of the overall online multimedia communications landscape, these solutions are designed primarily for collaborative communications versus one-to-many communications like Mediasite. Many organizations acknowledge that they need both technologies – one-to-many webcasting and collaborative web conferencing – to appropriately address their different communication requirements.
- **Video conferencing** includes solutions from Polycom, TANDBERG (now, Cisco) and Sony. These solutions are designed primarily for one-to-one or group communications with high levels of interactivity and collaboration. Like web conferencing, many organizations use both video conferencing and webcasting. Mediasite integrates with videoconferencing endpoints from Polycom and TANDBERG to record and manage interactive meetings, discussions and distance learning courses alongside other Mediasite content.
- **Authoring tools** include solutions like Accordent PresenterPLUS, Camtasia Studio and Microsoft Producer. Unlike webcasting, web conferencing or video conferencing, which are forms of online multimedia communication that capture and distribute/stream content, these solutions are production-oriented tools designed to create and edit multimedia content only. Some organizations will use these desktop tools to create training content by manually integrating existing audio, video, images, branding and other visual elements into a multimedia presentation which can then be published to a web or streaming server for distribution. This process can require a significant amount of production effort and user expertise in presentation authoring.
- **Online video services** and virtual meeting platforms include solutions from inXpo, Livestream, ON24, Stream57, Thomson Reuters, Unisfair and Wall Street Webcasting. These companies offer services or SaaS-based platforms that either allow audio and video to be captured from a presenter's computer (often with supporting materials uploaded in advance), produced streaming video services or 2D/3D virtual environments that may or may not include rich media webcasts.

Other vendors such as Echo360, Tegrity, Accordent Technologies and Panopto, provide lecture capture or webcasting capabilities, but differ in their technology approach, particularly in the lecture capture arena. Mediasite is an appliance- or room-based platform for lecture capture. It provides a full integrated system designed around an automated purpose-built recording appliance that captures, publishes and manages rich media content. Room-based appliances are capable of streaming live or on-demand and can leverage the full breadth of in-room audio/visual technology. Transparent recording automation means no presenter intervention which leads to the broadest end-user adoption across campus. A room-based platform like Mediasite also includes a complete content management platform for captured multimedia presentations. Other lecture capture solutions are implemented as software applications designed to capture and publish rich media content, but dependent upon a third-party content management platform, typically the institution's course management system. Software applications for lecture capture support on-demand streaming only and require in-room PC integration with varying levels of presenter intervention and recording knowledge which may lead to lower adoption rates throughout the campus. Lastly, laptop-resident desktop tools capture and publish non-rich media (limited video and presentation graphics). Like software applications they support on-demand streaming only and require a third-party content management platform. Desktop tools require the greatest degree of presenter intervention, technical confidence and support. While prevalent on many campuses, these three factors limit the practicality for campus-wide adoption.

The presence of these competitors could reduce the demand for our systems, and we may not have the financial resources to compete successfully.

If potential customers or competitors use open source software to develop products that are competitive with our products and services, we may face decreased demand and pressure to reduce the prices for our products.

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The growing acceptance and prevalence of open source software may make it easier for competitors or potential competitors to develop software applications that compete with our products, or for customers and potential customers to internally develop software applications that they would otherwise have licensed from us. One of the aspects of open source software is that it can be modified or used to develop new software that competes with proprietary software applications, such as ours. Such competition can develop without the degree of overhead and lead time required by traditional proprietary software companies. As open source offerings become more prevalent, customers may defer or forego purchases of our products, which could reduce our sales and lengthen the sales cycle for our products or result in the loss of current customers to open source solutions. If we are unable to differentiate our products from competitive products based on open source software, demand for our products and services may decline, and we may face pressure to reduce the prices of our products, which would hurt our profitability.

Our customers may use our products to share confidential and sensitive information, and if our system security is breached, our reputation could be harmed and we may lose customers.

Our customers may use our products and services to share confidential and sensitive information, the security of which is critical to their business. Third parties may attempt to breach our security for customer hosted content or the networks of our customers. Customers may take inadequate security precautions with their sensitive information and may inadvertently make that information public. We may be liable to our customers for any breach in security, and any breach could harm our reputation and cause us to lose customers. In addition, customers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We may be required to expend significant capital and other resources to further protect against security breaches or to resolve problems caused by any breach, including litigation-related expenses if we are sued.

Operational failures in our network infrastructure could disrupt our remote hosting services, could cause us to lose clients and sales to potential clients and could result in increased expenses and reduced revenues.

Unanticipated problems affecting our network systems could cause interruptions or delays in the delivery of the hosting services we provide to some of our clients. We provide remote hosting through computer hardware, some of which is within our facility and some of which is currently located in a third-party co-location facility. We do not control the operation of this co-location facility. Lengthy interruptions in our hosting service could be caused by the occurrence of a natural disaster, power loss, vandalism or other telecommunications problems at the co-location facility or if this co-location facility were to close without adequate notice. We currently do not have adequate computer hardware and systems to provide alternative service for most of our hosted clients in the event of an extended loss of service at the co-location facility. We are not equipped to provide full disaster recovery to all of our hosted clients. If there are operational failures in our network infrastructure that cause interruptions, slower response times, loss of data or extended loss of service for our remotely hosted clients, we may be required to issue credits or pay penalties, current clients may terminate their contracts or elect not to renew them, and we may lose sales to potential clients. If we determine that we need additional hardware and systems, we may be required to make further investments in our network infrastructure.

The technology underlying our products and services is complex and may contain unknown defects that could harm our reputation, result in product liability or decrease market acceptance of our products.

The technology underlying our products is complex and includes software that is internally developed, software licensed from third parties and hardware purchased from third parties. These products may contain errors or defects, particularly when first introduced or when new versions or enhancements are released. We may not discover defects that affect our current or new applications or enhancements until after they are sold and our insurance coverage may not be sufficient to cover our complete liability exposure. Any defects in our products and services could:

- Damage our reputation;
- Cause our customers to initiate product liability suits against us;
- Increase our product development resources;
- Cause us to lose sales; and
- Delay market acceptance of our products.

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If we are viewed only as a commodity supplier, our margins and valuations will shrink.

We need to provide value-added services in order to avoid being viewed as a commodity supplier. This entails building long-term customer relationships and developing features that will distinguish our products. Our technology is complex and is often confused with other products and technologies in the market place, including video conferencing, streaming and collaboration. If we fail to build long-term customer relationships and develop features that distinguish our products in the market place, our margins will shrink, and our stock may become less valued to investors.

Our success depends upon the proprietary aspects of our technology.

Our success and ability to compete depend to a significant degree upon the protection of our proprietary technology. We currently have two U.S. patents that have been issued to us and four U.S. patent applications that are pending. We may seek additional patents in the future. Our current patent applications cover different aspects of the technology used in our products which is important to our ability to compete. However, it is possible that:

- our pending patent applications may not result in the issuance of patents;
- any patents acquired by or issued to us may not be broad enough to protect us;
- any issued patent could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the inventions claimed in those patents;
- current and future competitors may independently develop similar technology, duplicate our services or design around any of our patents; and
- effective patent protection, including effective legal-enforcement mechanisms against those who violate our patent-related assets, may not be available in every country in which we do or plan to do business.

We also rely upon trademarks, copyrights and trade secrets to protect our technology, which may not be sufficient to protect our intellectual property.

We also rely on a combination of laws, such as copyright, trademark and trade secret laws, and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our technology. We have registered seven U.S. and four foreign country trademarks. These forms of intellectual property protection are critically important to our ability to establish and maintain our competitive position. However,

- third parties may infringe or misappropriate our copyrights, trademarks and similar proprietary rights;
- laws and contractual restrictions may not be sufficient to prevent misappropriation of our technology or to deter others from developing similar technologies;
- effective trademark, copyright and trade secret protection, including effective legal-enforcement mechanisms against those who violate our trademark, copyright or trade secret assets, may be unavailable or limited in foreign countries;
- other companies may claim common law trademark rights based upon state or foreign laws that precede the federal registration of our marks; and
- policing unauthorized use of our services and trademarks is difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use.

Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us for it, which would significantly harm our business.

If other parties bring infringement or other claims against us, we may incur significant costs or lose customers.

Other companies may obtain patents or other proprietary rights that would limit our ability to conduct our business and could assert that our technologies infringe their proprietary rights. We could incur substantial costs to defend any legal proceedings, even if without merit, and intellectual property litigation could force us to cease using key technology, obtain a license, or redesign our products. In the course of our business, we may sell certain systems to our customers, and in connection with such sale, we may agree to indemnify these customers from claims made against them by third parties for patent infringement related to these systems. In particular, claims are currently being made by holders of patents against educational institutions using streaming in their curriculum. We could be subject to similar claims, which could harm our business.

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If we lose key personnel or fail to integrate replacement personnel successfully, our ability to manage our business could be impaired.

Our future success depends upon the continued service of our key management, technical, sales, and other critical personnel. Certain of our officers and certain of our other key personnel are employees-at-will, and we cannot assure that we will be able to retain them. Key personnel have left our company in the past, sometimes to accept employment with companies that sell similar products or services to existing or potential customers of ours. There will likely be additional departures of key personnel from time to time in the future and such departures could result in additional competition, loss of customers or confusion in the marketplace. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives, and the results of our operations. In particular, the loss of the services of our Chief Executive Officer, Rimas Buinevicius, or our co-founder and Chief Technology Officer, Monty Schmidt, would harm our business. Although we do have employment agreements with Messrs. Buinevicius and Schmidt, we do not have life insurance policies on any of our key employees. In addition, the integration of replacement personnel could be time consuming, may cause disruptions to our operations, and may be unsuccessful.

Because our business is susceptible to risks associated with international operations, we may not be able to maintain or increase international sales of our products.

International product and service billings ranged from 14% to 28% of our total billings in each of the past three years. Our international operations are expected to continue to account for a significant portion of our business in the future. However, in the future we may be unable to maintain or increase international sales of our products and services. International sales are subject to a variety of risks, including:

- difficulties in establishing and managing international distribution channels;
- difficulties in selling, servicing and supporting overseas products and in translating products into foreign languages;
- the uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property or requirements for product certification or other restrictions;
- multiple and possibly overlapping tax structures;
- currency and exchange rate fluctuations; and
- economic or political changes in international markets.

We face risks associated with government regulation of the internet, and related legal uncertainties.

Currently, few existing laws or regulations specifically apply to the Internet, other than laws generally applicable to businesses. Many Internet-related laws and regulations, however, are pending and may be adopted in the United States, in individual states and local jurisdictions and in other countries. These laws may relate to many areas that impact our business, including encryption, network and information security, and the convergence of traditional communication services, such as telephone services, with Internet communications, taxes and wireless networks. These types of regulations could differ between countries and other political and geographic divisions both inside and outside the United States. Non-U.S. countries and political organizations may impose, or favor, more and different regulation than that which has been proposed in the United States, thus furthering the complexity of regulation. In addition, state and local governments within the United States may impose regulations in addition to, inconsistent with, or stricter than federal regulations. The adoption of such laws or regulations, and uncertainties associated with their validity, interpretation, applicability and enforcement, may affect the available distribution channels for, and the costs associated with, our products and services. The adoption of such laws and regulations may harm our business.

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Exercise of outstanding options and warrants will result in further dilution.

The issuance of shares of common stock upon the exercise of our outstanding options and warrants will result in dilution to the interests of our stockholders, and may reduce the trading price of our common stock.

At September 30, 2009, we had 500 thousand of outstanding warrants and 7.7 million of outstanding stock options granted under our stock option plans, 4.7 million of which are immediately exercisable.

To the extent that these stock options or warrants are exercised, dilution to the interests of our stockholders will likely occur. Additional options and warrants may be issued in the future at prices not less than 85% of the fair market value of the underlying security on the date of grant. Exercises of these options or warrants, or even the potential of their exercise may have an adverse effect on the trading price of our common stock. The holders of our options or our warrants are likely to exercise them at times when the market price of the common stock exceeds the exercise price of the securities. Accordingly, the issuance of shares of common stock upon exercise of the options and warrants will likely result in dilution of the equity represented by the then outstanding shares of common stock held by other stockholders. Holders of our options and warrants can be expected to exercise or convert them at a time when we would, in all likelihood, be able to obtain any needed capital on terms, which are more favorable to us than the exercise terms provided, by these options and warrants.

We may need to make acquisitions or form strategic alliances or partnerships in order to remain competitive in our market, and potential future acquisitions, strategic alliances or partnerships could be difficult to integrate, disrupt our business and dilute stockholder value.

We may acquire or form strategic alliances or partnerships with other businesses in the future in order to remain competitive or to acquire new technologies. As a result of these acquisitions, strategic alliances or partnerships, we may need to integrate products, technologies, widely dispersed operations and distinct corporate cultures. The products, services or technologies of the acquired companies may need to be altered or redesigned in order to be made compatible with our software products and services, or the software architecture of our customers. These integration efforts may not succeed or may distract our management from operating our existing business. Our failure to successfully manage future acquisitions, strategic alliances or partnerships could seriously harm our operating results. In addition, our stockholders would be diluted if we finance the acquisition, strategic alliances or partnerships by incurring convertible debt or issuing equity securities.

Our ability to utilize our net operating loss carryforwards may be limited.

Our federal net operating loss carryforwards are subject to limitations on how much may be utilized on an annual basis. The use of the net operating loss carryforwards may have additional limitations resulting from certain future ownership changes or other factors under Section 382 of the Internal Revenue Code.

If our net operating loss carryforwards are further limited, and we have taxable income which exceeds the available net operating loss carryforwards for that period, we would incur an income tax liability even though net operating loss carryforwards may be available in future years prior to their expiration. Any such income tax liability may adversely affect our future cash flow, financial position and financial results.

Our corporate compliance program cannot guarantee that we are in compliance with all potentially applicable regulations.

As a publicly traded company we are subject to significant regulations, including the Sarbanes-Oxley Act of 2002. While we have developed and instituted a corporate compliance program based on what we believe are the current best practices and continue to update the program in response to newly implemented regulatory requirements and guidance, we cannot assure that we are or will be in compliance with all potentially applicable regulations. Although our non-affiliate market capitalization was less than \$75 million at March 31, 2008 and 2009 and we were

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therefore not required to have an auditor attestation on our internal controls over financial reporting for fiscal 2008 or fiscal 2009, current SEC rules require us to have such an attestation at September 30, 2010. We cannot assure that in the future our management or, beginning in fiscal 2010, our auditors, will not find a material weakness in connection with their annual reviews of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We also cannot assure that we could correct any such weakness to allow our management to assess the effectiveness of our internal control over financial reporting as of the end of our fiscal year in time to enable our independent registered public accounting firm to attest that such assessment will have been fairly stated in our Annual Report on Form 10-K to be filed with the Securities and Exchange Commission or attest that we have maintained effective internal control over financial reporting as of the end of our fiscal year. If we fail to comply with any of these regulations, we could be subject to a range of regulatory actions, fines, or other sanctions or litigation. In addition, if we must disclose any material weakness in our internal control over financial reporting, our stock price may decline.

Provisions of our charter documents and Maryland law could also discourage an acquisition of our company that would benefit our stockholders.

Provisions of our articles of incorporation and by-laws may make it more difficult for a third party to acquire control of our company, even if a change in control would benefit our stockholders. Our articles of incorporation authorize our board of directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. Furthermore, our articles of incorporation provide for a classified board of directors, which means that our stockholders may vote upon the retention of only one or two of our seven directors each year. Moreover, Maryland corporate law restricts certain business combination transactions with “interested stockholders” and limits voting rights upon certain acquisitions of “control shares.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our principal office is located in Madison, Wisconsin in a leased facility of approximately 19,000 square feet. The building serves as our corporate headquarters, accommodating our general and administrative, product development and selling and marketing departments. We believe this facility is adequate and suitable for our needs. The current lease term for this office expires on September 30, 2011.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter ended September 30, 2009.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock was initially traded on the American Stock Exchange under the symbol "SFO," beginning with our initial public offering in April of 1998. On April 24, 2000, our common stock began trading on the NASDAQ Global Market under the symbol "SOFO." Effective September 16, 2009, we transferred the listing of our common stock to the NASDAQ Capital Market. The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on the NASDAQ Global or Capital Markets. All share and per share data have been adjusted for the one-for-ten reverse stock split which was effective on November 16, 2009.

	<u>High</u>	<u>Low</u>
Year Ended September 30, 2010:		
First Quarter (through November 30, 2009)	\$ 7.50	\$ 4.65
Year Ended September 30, 2009:		
First Quarter	6.50	3.21
Second Quarter	7.60	4.30
Third Quarter	8.90	6.30
Fourth Quarter	7.50	5.00
Year Ended September 30, 2008:		
First Quarter	28.50	11.80
Second Quarter	14.90	6.10
Third Quarter	9.50	6.00
Fourth Quarter	9.00	5.00

In March 2008, our common stock failed to maintain a minimum bid price of \$1.00 for at least 10 consecutive days, which caused our stock price to fail to meet one of the minimum standards required by the NASDAQ Stock Market for continued listing as a NASDAQ Global Market security. On March 10, 2008 we received a letter from NASDAQ indicating that we need to regain compliance with the minimum bid price requirement by September 8, 2008 in order to remain on the NASDAQ Global Market. On September 9, 2008 we were notified by NASDAQ that we had failed to regain compliance with the minimum bid price during the 180 days provided and our securities were therefore subject to delisting from the NASDAQ Global Market. In response, we applied for and were notified on September 12, 2008 by NASDAQ that NASDAQ approved our request to transfer the listing of our shares to the NASDAQ Capital Market. Transfer to the NASDAQ Capital Market and compliance with its initial listing standards afforded an additional 180 day period for our stock to attain the minimum \$1.00 bid price for at least 10 consecutive business days until March 9, 2009. We received notice from NASDAQ on October 22, 2008, December 23, 2008 and March 24, 2009 that NASDAQ had determined to extend the suspension of the minimum bid price for additional 90 day periods. On July 14, 2009, we received notice from NASDAQ that enforcement of the minimum bid price requirement would be reinstated on August 3, 2009. The Company had 141 calendar days remaining in its bid price compliance period when suspension began, extending the period in which to regain compliance to December 21, 2009. On November 2, 2009 the Company notified NASDAQ that it intended to execute a reverse split of its stock in the ratio of one for ten in order to gain compliance. The Company's reverse stock split became effective November 16, 2009. On December 2, 2009, the Company received notice from NASDAQ that the Company had regained compliance with the minimum bid requirement and the matter was now closed. While there is no pending listing compliance issue with NASDAQ, there is no assurance that the Company will not fail one or more listing requirements in the future. If our stock is delisted, it may have a material adverse effect on the price of our common stock and the levels of liquidity currently available to our stockholders. Delisting would also make it more difficult for us to raise capital in the future or impact customer confidence. If our common stock is removed from the NASDAQ Capital Market, an investor could find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common shares. Additionally, our stock may then be subject to "penny stock" regulations.

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The Company has not paid any cash dividends and does not intend to pay any cash dividends in the foreseeable future. The Company is prohibited from paying any cash dividends pursuant to the terms of the loan and security agreement with Silicon Valley Bank.

At December 1, 2009 there were 471 common stockholders of record and approximately 9,000 total shareholders. Many shares are held by brokers and other institutions on behalf of shareholders.

Equity Compensation Plan Information

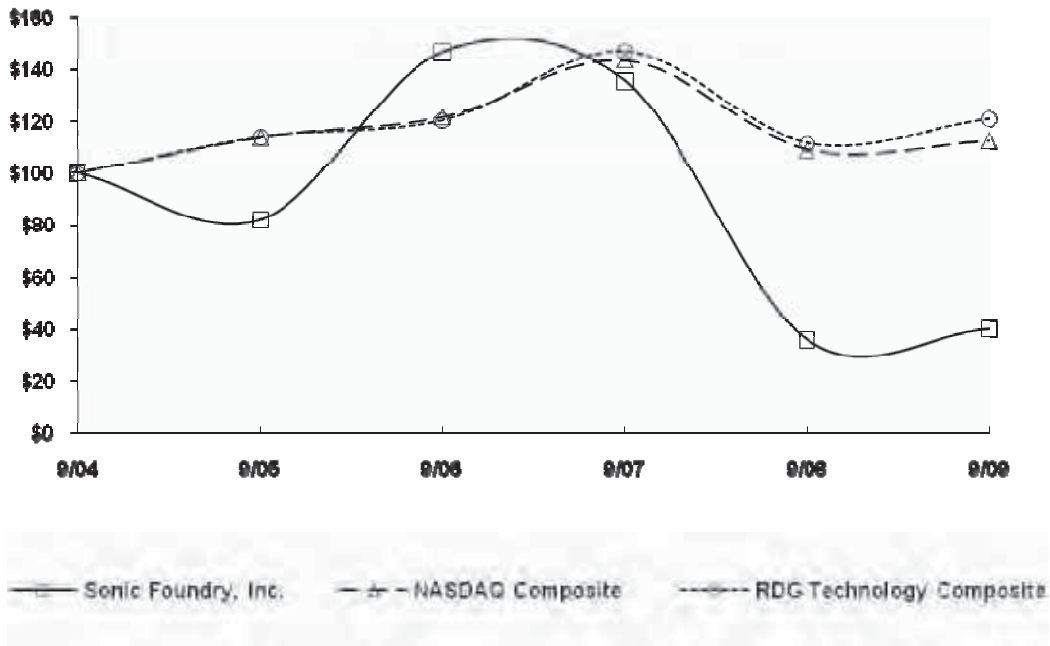
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	521,957	18.44	405,399
Equity compensation plans not approved by security holders (2)	244,658	11.36	-
Total	766,615	16.17	405,399

- (1) Consists of the 2009 Stock Incentive Plan, Employee Incentive Stock Option Plan and the Directors Stock Option Plan. For further information regarding these plans, reference is made to Note 5 of the financial statements.
- (2) Consists of the Non-Qualified Stock Option Plan. For further information regarding this plan, reference is made to Note 5 of the financial statements.

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The graph below compares the cumulative total stockholder return on our common stock from September 30, 2004 through and including September 30, 2009 with the cumulative total return on The NASDAQ Stock Market (US only) and the RDG Technology Composite. The graph assumes that \$100 was invested in our common stock on September 30, 2004 for each of the indexes and that all dividends were reinvested. Unless otherwise specified, all dates refer to the last day of each month presented. The comparisons in the graph below are based on historical data, with our common stock prices based on the closing price on the dates indicated, and are not intended to forecast the possible future performance of our common stock.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Sonic Foundry, Inc., The NASDAQ Composite Index
And The RDG Technology Composite Index



*\$100 invested on 9/30/04 in stock or Index, including reinvestment of dividends.
Fiscal year ending September 30.

(A) RECENT SALES OF UNREGISTERED SECURITIES

None

(B) USE OF PROCEEDS FROM REGISTERED SECURITIES

None

(C) ISSUER PURCHASES OF EQUITY SECURITIES

None

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial and operating data were derived from our consolidated financial statements. The selected financial data set forth below is qualified in its entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto appearing elsewhere in this annual report on Form 10-K (in thousands except per share data). All share and per share data have been adjusted for the one-for-ten reverse stock split which was effective on November 16, 2009.

	Years Ended September 30,				
	2009	Revised 2008	Revised 2007	Revised 2006	Revised 2005
Statement of Operations Data:					
Revenue	\$ 18,577	\$ 15,601	\$ 16,737	\$ 12,564	\$ 8,342
Cost of revenue	4,331	4,205	4,133	3,215	2,754
Gross margin	14,246	11,396	12,604	9,349	5,588
Operating expenses	16,724	19,279	19,222	12,909	9,944
Loss from operations	(2,478)	(7,883)	(6,618)	(3,560)	(4,356)
Other income, net	(25)	10	248	77	187
Provision for income taxes	(142)	(256)	(201)	(56)	(229)
Net loss	<u>\$ (2,645)</u>	<u>\$ (8,129)</u>	<u>\$ (6,571)</u>	<u>\$ (3,539)</u>	<u>\$ (4,398)</u>
Basic net loss per common share	<u>\$ (0.74)</u>	<u>\$ (2.28)</u>	<u>\$ (1.89)</u>	<u>\$ (1.10)</u>	<u>\$ (1.45)</u>
Diluted net loss per common share	<u>\$ (0.74)</u>	<u>\$ (2.28)</u>	<u>\$ (1.89)</u>	<u>\$ (1.10)</u>	<u>\$ (1.45)</u>
Weighted average common shares: - Basic	3,598,040	3,557,966	3,468,803	3,201,531	3,036,255
- Diluted	3,598,040	3,557,966	3,468,803	3,201,531	3,036,255
Balance Sheet Data at September 30:					
Cash and cash equivalents	\$ 2,598	\$ 3,560	\$ 8,008	\$ 2,751	\$ 4,271
Working capital	(344)	774	7,940	2,198	4,205
Total assets	16,173	17,474	23,981	16,912	16,245
Long-term liabilities	1,977	1,610	1,825	1,170	621
Stockholders' equity	6,601	8,455	15,908	10,950	12,549

During 2009, the Company identified an issue requiring revision of the prior period financial statements relating to the presentation of Deferred Tax Liabilities. Beginning with an acquisition in fiscal year 2002, the Company has amortized Goodwill for tax purposes over a 15 year life. The difference between the book and tax balance of Goodwill creates a Deferred Tax Liability and an annual tax expense.

Management has correctly recorded the Deferred Tax Liability and corresponding expense in fiscal year 2009 and has corrected prior year amounts on the financial statements and disclosures beginning with this fiscal year 2009 10-K filing. Refer to Notes 2 and 8 for additional details.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial and business analysis below provides information that Sonic Foundry, Inc. (the Company) believes is relevant to an assessment and understanding of the Company's consolidated financial position and results of operations. This financial and business analysis should be read in conjunction with the consolidated financial statements and related notes.

When used in this Report, the words “anticipate”, “expect”, “plan”, “believe”, “seek”, “estimate” and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include, but are not limited to, statements about the features, benefits and performance of our products, our ability to introduce new product offerings and increase revenue from existing products, expected expenses including those related to selling and marketing, product development and general and administrative, our beliefs regarding the health and growth of the market for products, anticipated increase in our customer base, expansion of our products functionalities, expected revenue levels and sources of revenue, expected impact, if any, of legal proceedings, the adequacy of liquidity and capital resources, and expected growth in business. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, market acceptance for our products, our ability to attract and retain customers and distribution partners for existing and new products, our ability to control our expenses, our ability to recruit and retain employees, the ability of distribution partners to successfully sell our products, legislation and government regulation, shifts in technology, global and local business conditions, our ability to effectively maintain and update our products and service portfolio, the strength of competitive offerings, the prices being charged by those competitors, and the risks discussed elsewhere herein. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

Sonic Foundry, Inc. is a technology leader in the emerging web communications marketplace, providing enterprise solutions and services that link an information-driven world. The company's principal product line, Mediasite® is a web communication and content management system that automatically and cost-effectively webcasts lectures and presentations. Trusted by Fortune 500 companies, top education institutions and Federal, state and local government agencies for a variety of critical communication needs, Mediasite is the leading one-to-many multimedia communication solution for capturing knowledge and sharing it online.

Reverse Stock Split

Effective November 16, 2009, the Company implemented a one-for-ten reverse stock split of its stock (see Note 15). All shares and per share data in this report have been adjusted to reflect this reverse stock split.

Critical Accounting Policies

We have identified the following as critical accounting policies to our Company and have discussed the development, selection of estimates and the disclosure regarding them with the audit committee of the board of directors:

- Revenue recognition, allowance for doubtful accounts, and reserves;
- Impairment of long-lived assets;
- Valuation allowance for net deferred tax assets; and
- Accounting for stock-based compensation.

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Revenue Recognition, Allowance for Doubtful Accounts and Reserves

General

Revenue is recognized when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sales price is fixed or determinable and collectability is reasonably assured. Revenue is deferred when undelivered products or services are essential to the functionality of delivered products, customer acceptance is uncertain, significant obligations remain, or the fair value of undelivered elements is unknown. The Company does not offer customers the right to return product, other than for exchange or repair pursuant to a warranty or stock rotation. The Company's policy is to reduce revenue if it incurs an obligation for price rebates or other such programs during the period the obligation is reasonably estimated to occur. The following policies apply to the Company's major categories of revenue transactions.

Products

Products are considered delivered, and revenue is recognized, when title and risk of loss have been transferred to the customer. Under the terms and conditions of the sale, this occurs at the time of shipment to the customer. Product revenue currently represents sales of our Mediasite recorders and Mediasite related products such as server software revenue.

Services

We sell support contracts to our customers, typically one year in length, and record the related revenue ratably over the contractual period. Our support contracts cover phone and electronic technical support availability over and above the level provided by our distribution partners, software upgrades on a when and if available basis, advance hardware replacement and an extension of the standard hardware warranty from 90 days to one year. The manufacturers we contract with to build the units provide a limited one-year warranty on the hardware. We also sell installation, training, event webcasting, and customer content hosting services. Revenue for those services is recognized when performed in the case of installation, training and event webcasting services and is recognized ratably over the contract period for content hosting services. Service amounts invoiced to customers in excess of revenue recognized are recorded as deferred revenue until the revenue recognition criteria are met.

Revenue Arrangements that Include Multiple Elements

Revenue for transactions that include multiple elements such as hardware, software, installation, training, and post customer support is allocated to each element based on vendor-specific objective evidence of the fair value "VSOE" in accordance with FASB ASC-985-605. Revenue is recognized for each element when the revenue recognition criteria have been met for that element. VSOE is based on the price charged when the element is sold separately. If VSOE of fair value does not exist for all elements in a multiple element arrangement, revenue is allocated first to the fair value of the undelivered elements and the residual revenue to the delivered elements. The Company recognizes revenue for delivered elements only when all of the following criteria are satisfied: undelivered elements are not essential to the functionality of delivered elements, uncertainties regarding customer acceptance are resolved, and the fair value for all undelivered elements is known.

Reserves

We record reserves for stock rotations, price adjustments, rebates, and sales incentives to reduce revenue and accounts receivable for these and other credits we may grant to customers. Such reserves are recorded at the time of sale and are calculated based on historical information (such as rates of product stock rotations) and the specific terms of sales programs, taking into account any other known information about likely customer behavior. If actual customer behavior differs from our expectations, additional reserves may be required. Also, if we determine that we can no longer accurately estimate amounts for stock rotations and sales incentives, we would not be able to recognize revenue until the customers exercise their rights, or such rights lapse, whichever is later.

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Credit Evaluation and Allowance for Doubtful Accounts

We perform ongoing credit evaluations of our customers' financial condition and generally do not require collateral. We maintain allowances for potential credit losses and such losses have been within our expectations.

Impairment of long-lived assets

We assess the impairment of goodwill and capitalized software development costs on an annual basis or whenever events or changes in circumstances indicate that the fair value of these assets is less than the carrying value.

If we determine that the fair value of goodwill is less than its carrying value, based upon the annual test or the existence of one or more indicators of impairment, we would then measure impairment based on a comparison of the implied fair value of goodwill with the carrying amount of goodwill. To the extent the carrying amount of goodwill is greater than the implied fair value of goodwill, we would record an impairment charge for the difference.

We evaluate all of our long-lived assets, including intangible assets other than goodwill, for impairment in accordance with the provisions of FASB ASC-360-10. We evaluate all of our long-lived assets and intangible assets, including intangible assets other than goodwill, for impairment. Long-lived assets and intangible assets other than goodwill are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. Should events indicate that any of our long-lived assets are impaired; the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and recorded in earnings during the period of such impairment.

Valuation allowance for net deferred tax assets

Deferred income taxes are provided for temporary differences between financial reporting and income tax basis of assets and liabilities, and are measured using currently enacted tax rates and laws. Deferred income taxes also arise from the future benefits of net operating loss carryforwards. A valuation allowance equal to 100% of the net deferred tax assets has been recognized due to uncertainty regarding future realization.

Accounting for stock-based compensation

Upon the adoption of FASB ASC-718, the Company changed its option valuation model from the Black-Scholes model to a lattice valuation model for all stock options granted subsequent to September 30, 2005. The lattice valuation model is a more flexible analysis to value employee options because of its ability to incorporate inputs that change over time, such as actual exercise behavior of option holders. The Company used historical data to estimate the option exercise and employee departure behavior used in the lattice valuation model. Expected volatility is based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The Company considers all employees to have similar exercise behavior and therefore has not identified separate homogenous groups for valuation. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the options is based on the U.S. Treasury yields in effect at the time of grant. Forfeitures are based on actual behavior patterns.

Recent Accounting Pronouncements

In September 2006, the FASB issued guidance, which provided enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. The adoption of this standard on October 1, 2008 for financial assets and liabilities did not have a material effect on the Company's results of operations or financial position. In February 2008, the FASB issued additional guidance which deferred the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually), to fiscal years beginning after November 15, 2008. Early adoption is permitted. The adoption of this standard related to non financial assets and liabilities on October 1, 2009 is not expected to have a material effect on the Company's results of operations or financial position other than requiring additional disclosures for those items where non-recurring fair valuing of certain assets is performed.

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In February 2007, the FASB issued guidance which permits but does not require the Company to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

In December 2007, the FASB issued guidance which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. This guidance is effective for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In April 2008, the FASB issued guidance that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The guidance is effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued guidance concerning interim disclosures about fair value of financial instruments requiring publicly traded companies to provide disclosure about the fair value of financial instruments whenever interim summarized financial information is reported. Previously, disclosures about the fair value of financial instruments were only required on an annual basis. Disclosure shall include the method(s) and significant assumptions used to estimate the fair value of financial instruments and shall describe changes in method(s) and significant assumptions, if any, during the period. This guidance was effective for interim and annual periods ending after June 15, 2009, and, as such, the Company began including this disclosure with its third quarter 2009 financial statements.

In May 2009, the FASB issued guidance regarding the disclosure of subsequent events. This guidance made no changes to current accounting but added required disclosures regarding the date through which the Company has evaluated subsequent events and whether that evaluation date is the date of financial statement issuance or the date the financial statements were available to be issued. This guidance was effective, and adopted by the Company, for interim and annual periods ending after June 15, 2009.

In June 2009, the FASB approved the "FASB Accounting Standards Codification" (the "Codification") as the single source of authoritative nongovernmental U.S. GAAP to be launched on July 1, 2009. The codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered non-authoritative. The Codification is effective for interim and annual periods ending after September 15, 2009. Adoption by the Company has not led to any material impact on its consolidated financial position, results of operation or cash flows.

At its September 23, 2009 board meeting, the FASB ratified final consensus on revenue arrangements with multiple deliverables. This Issue supersedes FASB ASC 605-25. The issue addresses the unit of accounting for arrangements involving multiple deliverables. It also addresses how arrangement consideration should be allocated to the separate units of accounting, when applicable. However, guidance on determining when the criteria for revenue recognition are met and on how an entity should recognize revenue for a given unit of accounting are located in other sections of the Codification. The issue will ultimately be issued as an Accounting Standards Update (ASU) that will amend FASB ASC 605-25. Final consensus is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this Issue (1) prospectively to new or materially modified arrangements after the Issue's effective date or (2) retrospectively for all periods presented. The Company does not believe that revisions to FASB ASC 605-25 will have a material impact on the Company's consolidated financial statements.

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At its September 23, 2009 board meeting, the FASB also ratified final consensus on software revenue recognition. This Issue amends FASB ASC 985-605 and FASB ASC 985-605-15-3 to exclude from their scope all tangible products containing both software and non-software components that function together to deliver the product's essential functionality. That is, the entire product (including the software deliverables and non-software deliverables) would be outside the scope of FASB ASC 985-605 and would be accounted for under other accounting literature. The revised scope of FASB ASC 985-605 (Issue 09-3) will ultimately be issued as an Accounting Standards Update (ASU) that will amend the ASC. The final consensus is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this Issue (1) prospectively to new or materially modified arrangements after the Issue's effective date or (2) retrospectively for all periods presented. Early application is permitted. The Company does not believe that FASB ASC 985-605 will have a material impact on the Company's consolidated financial statements.

Subsequent to the issuance of the Codification, the FASB has released Accounting Standard Update Nos. 2009-01 through 2009-15. The Company has reviewed each of these updates and determined that none will have a material impact on the Company's financial statements.

RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition in conjunction with our consolidated financial statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K.

Revenue

Revenue from our business include the sales of Mediasite recorders and server software products and related services contracts, such as customer support, installation, training, content hosting and event services sold separately. We market our products to educational institutions, corporations and government agencies that need to deploy, manage, index and distribute video content on Internet-based networks. We reach both our domestic and international markets through reseller networks, a direct sales effort and partnerships with system integrators.

Revenue in 2009 totaled \$18.6 million, compared to \$15.6 million in 2008, an increase of 19%. Revenue consisted of the following:

- Product revenue from the sale of Mediasite recorder units and server software increased from \$8.4 million in 2008 to \$9.6 million in 2009. The increase is primarily due to an increase in units sold. The average selling price decreased as a result of completing more multi-unit transactions as well as the sale of discounted hardware upgrades for products at end of life. Additionally, \$498 thousand of revenue for product not installed was deferred at September 30, 2008. There was no such deferral at September 30, 2009.

	<u>2009</u>	<u>2008</u>
Units sold	846	776
Rack to mobile ratio	2.1 to 1	1.2 to 1
Average sales price, excluding support (000's)	\$10.7	\$11.3

- Services revenue represent the portion of fees charged for Mediasite customer assurance service contracts amortized over the length of the contract, typically 12 months, as well as training, installation, event and content hosting services. Services revenue increased from \$7.0 million in 2008 to \$8.8 million in 2009 due primarily to an increase in support contracts on new Mediasite recorder units and renewals of support contracts entered into in prior years as well as increases in event and content hosting services. At September 30, 2009 \$5.3 million of deferred revenue remained in unearned revenue, of which we expect to recognize approximately \$2.2 million in the quarter ending December 31, 2009.
- Other revenue relates to freight charges billed separately to our customers.

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Gross Margin

Total gross margin in 2009 was \$14.2 million or 77% compared to \$11.4 million or 73% in 2008. Gross margin increased primarily due to realizing a decrease in the cost of manufacturing Mediasite units. The significant components of cost of revenue include:

- Material and freight costs for the Mediasite recorders. Costs for 2009 Mediasite recorder hardware and other costs totaled \$3.0 million compared to \$3.4 million in fiscal 2008. Freight costs were \$155 thousand and labor and allocated costs were \$683 thousand in 2009 compared to \$148 thousand and \$357 thousand in fiscal 2008.
- Services costs. Staff wages and other costs allocated to cost of service revenues were \$537 thousand in fiscal 2009 and \$319 thousand in fiscal 2008, resulting in gross margin on services of 94% in fiscal 2009 and 95% in fiscal 2008.

Gross margin is expected to increase in fiscal 2010 as total revenue increases and as the mix of revenue continues to reflect a significant percentage of higher margin services revenue. Further cost reductions relating to manufacturing of Mediasite units are also expected in fiscal 2010.

Operating Expenses

Selling and Marketing Expenses

Selling and marketing expenses include wages and commissions for sales, marketing, business development and technical support personnel, print advertising and various promotional expenses for our products. Timing of these costs may vary greatly depending on introduction of new products and services, entrance into new markets or participation in major tradeshows.

Selling and marketing expense decreased \$2.6 million, or 20% from \$12.9 million in 2008 to \$10.3 million in 2009. Significant differences include:

- Salaries, incentive compensation, and benefits decreased \$991 thousand over prior year due to lower staff levels. During the second quarter of fiscal 2008, management implemented a cost reduction plan that resulted in lower staff levels for the remainder of 2008 and all of 2009. Severance payouts also contributed to the higher costs during 2008.
- The Company initiated a plan in 2008 to focus its selling and marketing efforts on the higher education market resulting in reductions, beginning in Q2-2008, to tradeshow and other marketing efforts focused on the corporate markets as well as a reduction in selling and marketing staff. This plan resulted in a decrease of \$720 thousand in marketing and tradeshow costs in fiscal 2009.
- Travel expenses decreased by \$333 thousand as a result of lower staff levels, fewer tradeshows and reduced travel requirements necessary to close transactions.
- Costs allocated from General and Administrative also decreased by \$487 thousand as a result of lower General and Administrative costs resulting from the cost reduction plan implemented in fiscal 2008.

As of September 30, 2009 we had 60 employees in Selling and Marketing, an increase from 59 employees at September 30, 2008. We reduced our headcount in Selling and Marketing in January 2008 from 73 and expect our headcount to remain at or near current levels in fiscal 2010.

General and Administrative Expenses

General and administrative (“G&A”) expenses consist of personnel and related costs associated with the facilities, finance, legal, human resource and information technology departments, as well as other expenses not fully allocated to functional areas.

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G&A expenses increased \$67 thousand, or 2%, from \$2.8 million in 2008 to \$2.9 million in 2009. Major components of the change include:

- In 2008 we recorded a benefit of \$200 thousand due to the reversal of certain accruals in which payment is now deemed remote. There was no such reversal in 2009.
- Professional fees decreased approximately \$68 thousand due primarily to reduced accounting and investor relations costs in fiscal 2009.
- State and local franchise, sales and other taxes decreased in fiscal 2009 by approximately \$67 thousand.

As of September 30, 2009 we had 8 full-time employees in G&A. We do not anticipate growth in G&A headcount in fiscal 2009.

Product Development Expenses

Product development (R&D) expenses include salaries and wages of the software research and development staff and an allocation of benefits, facility and administrative expenses. Fluctuations in product development expenses correlate directly to changes in headcount.

R&D expenses decreased \$67 thousand, or 2%, from \$3.53 million in 2008 to \$3.46 million in 2009.

As of September 30, 2009 and 2008 we had 25 employees, excluding interns, in Research and Development. We do not anticipate significant growth in R&D headcount in fiscal 2010. No fiscal 2009 software development efforts qualified for capitalization.

Other Income

Other income included primarily interest income from investments in certificates of deposit and overnight investment vehicles. Lower interest rates and reduced cash balances led to a decrease in interest income from \$99 thousand in 2008 to \$47 thousand in 2009.

Provisions Related to Income Taxes

In fiscal 2009, the Company recorded a non-cash deferred tax liability related to goodwill acquired in 2001 and made corresponding revisions to 2008 results. The net impact was to record a \$142 thousand non-cash provision for taxes and an increase to a long-term deferred tax liability of \$142 thousand in fiscal 2009 and to record a \$256 thousand non-cash provision for taxes in fiscal 2008 as well as the accumulated impact of prior period amortization of goodwill. This liability had historically been presented net of deferred tax assets and associated valuation allowances. Management determined that due to the nature of the deferred tax liability and future growth of such non-cash liability it was more prudent to present separately. Fiscal 2008 numbers have been revised to match this presentation. See notes 2 and 8 for more information.

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LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations to date primarily from public and private placement offerings of equity securities and debt. On September 30, 2009 and 2008, we had cash and cash equivalents of \$2.6 million and \$3.6 million, respectively.

Cash used in operating activities totaled \$1.5 million in 2009 compared to \$3.9 million in 2008, an improvement of \$2.4 million or 62%. Cash used in 2009 was impacted by a decrease in the net loss of \$5.5 million from \$8.1 million to \$2.6 million and offset by changes in non-cash charges and working capital. Working capital changes included the positive effects of an increase in unearned revenue and reductions in accounts receivable of \$614 thousand and \$168 thousand, respectively. These were offset by the negative effects of a decrease in accounts payable, accrued liabilities and other long-term liabilities of \$629 thousand. During 2008, working capital adjustments included the positive effects of an increase in unearned revenue, reductions in accounts receivable, and reductions in prepaid expenses of \$1.5 million, \$1.3 million, and \$306 thousand, respectively.

Cash used in investing activities totaled \$237 thousand in 2009 compared to cash used in investing activities of \$218 thousand in 2008. Investing activities for each of these two years were due to purchases of property and equipment.

The Company has historically financed its operations primarily through cash from sales of equity securities, cash from operations, and to a limited extent, through bank credit facilities. Cash provided by financing activities in 2009 totaled \$753 thousand compared to cash used in financing activities of \$361 thousand in 2008. During 2009, financing activities included proceeds from the revolving line of credit and note payable totaling \$938 thousand. In response to a history of recurring operating losses, the Company initiated cost reduction efforts in January 2008. These efforts achieved a 24% reduction in quarterly operating expenses during fiscal 2008. Continued efforts to control costs and improve revenues led to a 19% growth in revenues, an increase of three percentage points in gross margin and further reductions in operating costs in fiscal 2009. The Company anticipates further improvements in the gross margin rate and further reductions in operating expenses in fiscal 2010 and therefore believes its cash position is adequate to accomplish its business plan through at least the next twelve months, even if revenues in fiscal 2010 do not continue to improve. We may evaluate further operating or capital lease opportunities to finance equipment purchases in the future or utilize the Company's revolving line of credit to support working capital needs, if the Company deems it advisable to do so. We may also seek additional equity financing, or issue additional shares previously registered in our available shelf registration, although we currently have no plans to do so.

On April 14, 2009, the Company executed the First Amendment to the Amended and Restated Loan and Security Agreement (the "First Amendment") with Silicon Valley Bank which extended an existing credit facility in the form of a \$3,000,000 secured revolving line of credit and a \$1,000,000 term loan. While the Company anticipates limited use of the line of credit and that it will be in compliance with all provisions of the agreement, there can be no assurance that the existing Amended Loan Agreement will remain available to the Company nor that additional financing will be available or on terms acceptable to the Company.

Contractual Obligations

The following summarizes our contractual obligations at September 30, 2009 and the effect those obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

Contractual Obligations:	Total	Less than 1 Year	Years 2-3	Years 4-5	Over 5 years
Purchase commitments	\$ 572	\$ 572	\$ —	\$ —	\$ —
Operating lease obligations	1,010	501	509	—	—
Capital lease obligations (a)	25	25	—	—	—
Notes payable (a)	981	380	601	—	—

(a) Includes fixed and determinable interest payments

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Financial Instruments

We are not party to any derivative financial instruments or other financial instruments for which the fair value disclosure would be required under FASB ASC-815-10. Our cash equivalents consist of overnight investments in money market funds that are carried at fair value. Accordingly, we believe that the market risk of such investments is minimal.

Interest Rate Risk

Our cash equivalents are subject to interest rate fluctuations, however, we believe this risk is immaterial due to the short-term nature of these investments.

Foreign Currency Exchange Rate Risk

All international sales of our products are denominated in US dollars.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Sonic Foundry, Inc.

We have audited the accompanying consolidated balance sheets of Sonic Foundry, Inc. and subsidiary (a Maryland Corporation) (the Company) as of September 30, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sonic Foundry, Inc. as of September 30, 2009 and 2008, and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

Madison, Wisconsin
December 4, 2009

Sonic Foundry, Inc.
Consolidated Balance Sheets
(in thousands except for share and per share data)

	September 30,	
	2009	Revised 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,598	\$ 3,560
Accounts receivable, net of allowances of \$105 and \$150	3,741	3,864
Inventories	440	330
Prepaid expenses and other current assets	472	429
Total current assets	7,251	8,183
Property and equipment:		
Leasehold improvements	980	980
Computer equipment	2,545	2,476
Furniture and fixtures	461	461
Total property and equipment	3,986	3,917
Less accumulated depreciation and amortization	2,670	2,223
Net property and equipment	1,316	1,694
Other assets:		
Goodwill	7,576	7,576
Other intangibles, net of amortization of \$35 and \$19	30	21
Total assets	\$ 16,173	\$ 17,474
Liabilities and stockholders' equity		
Current liabilities:		
Revolving line of credit	\$ 300	\$ -
Accounts payable	636	1,256
Accrued liabilities	1,047	1,113
Unearned revenue	5,272	4,661
Current portion of capital lease obligations	24	46
Current portion of notes payable	316	333
Total current liabilities	7,595	7,409
Long-term portion of capital lease obligations	-	24
Long-term portion of notes payable	557	223
Other liabilities	170	255
Deferred tax liability	1,250	1,108
Total liabilities	9,572	9,019
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 500,000 shares; none issued	-	-
5% preferred stock, Series B, voting, cumulative, convertible, \$.01 par value (liquidation preference at par), authorized 1,000,000 shares, none issued	-	-
Common stock, \$.01 par value, authorized 10,000,000 shares; 3,619,639 and 3,572,883 shares issued and 3,606,922 and 3,560,167 shares outstanding	362	357
Additional paid-in capital	184,990	184,204
Accumulated deficit	(178,556)	(175,911)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)
Total stockholders' equity	6,601	8,455
Total liabilities and stockholders' equity	\$ 16,173	\$ 17,474

See accompanying notes

Sonic Foundry, Inc.
Consolidated Statements of Operations
(in thousands except for share and per share data)

	Years Ended September 30,	
	2009	Revised 2008
Revenue:		
Product	\$ 9,644	\$ 8,439
Services	8,813	7,037
Other	120	125
Total revenue	18,577	15,601
Cost of revenue:		
Product	3,794	3,886
Services	537	319
Total cost of revenue	4,331	4,205
Gross margin	14,246	11,396
Operating expenses:		
Selling and marketing	10,350	12,905
General and administrative	2,910	2,843
Product development	3,464	3,531
Total operating expenses	16,724	19,279
Loss from operations	(2,478)	(7,883)
Interest expense	(72)	(89)
Other income, net	47	99
Total other income	(25)	10
Loss before income taxes	(2,503)	(7,873)
Provision for income taxes	(142)	(256)
Net loss	\$ (2,645)	\$ (8,129)
Loss per common share:		
Basic net loss per common share	\$ (0.74)	\$ (2.28)
Diluted net loss per common share	\$ (0.74)	\$ (2.28)
Weighted average common shares – Basic	3,598,040	3,557,966
– Diluted	3,598,040	3,557,966
See accompanying notes		

Sonic Foundry, Inc.
Consolidated Statements of Stockholders' Equity
For the Year Ended September 30, 2009 and 2008
(in thousands)

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated Deficit</u>	<u>Receivable for common stock issued</u>	<u>Treasury stock</u>	<u>Total</u>
Revised balance, September 30, 2007	\$ 357	\$ 183,528	\$ (167,782)	\$ (26)	\$ (169)	\$ 15,908
Stock compensation	—	639	—	—	—	639
Issuance of common stock warrants and options	—	7	—	—	—	7
Exercise of common stock warrants and options	—	30	—	—	—	30
Revised net loss	—	—	(8,129)	—	—	(8,129)
Revised balance, September 30, 2008	357	184,204	(175,911)	(26)	(169)	8,455
Stock compensation	—	584	—	—	—	584
Issuance of common stock	3	99	—	—	—	102
Exercise of common stock warrants and options	2	103	—	—	—	105
Net loss	—	—	(2,645)	—	—	(2,645)
Balance, September 30, 2009	<u>\$ 362</u>	<u>\$184,990</u>	<u>\$ (178,556)</u>	<u>\$ (26)</u>	<u>\$ (169)</u>	<u>\$ 6,601</u>

See accompanying notes

Sonic Foundry, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Years Ended September 30,	
	2009	Revised 2008
Operating activities		
Net loss	\$ (2,645)	\$ (8,129)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of other intangibles	16	13
Depreciation and amortization of property and equipment	615	702
Loss on sale of fixed assets	—	5
Provision for doubtful accounts	(45)	(120)
Deferred taxes	142	256
Share-based compensation expense related to stock warrants and options	584	639
Other non-cash items	(3)	98
Changes in operating assets and liabilities:		
Accounts receivable	168	1,257
Inventories	(110)	(126)
Prepaid expenses and other assets	(43)	306
Accounts payable, accrued liabilities and other long-term liabilities	(771)	(259)
Unearned revenue	614	1,489
Net cash used in operating activities	(1,478)	(3,869)
Investing activities		
Purchases of property and equipment	(237)	(218)
Net cash used in investing activities	(237)	(218)
Financing activities		
Net proceeds from revolving line of credit	300	—
Proceeds from notes payable	638	—
Payments on notes payable	(321)	(333)
Payments of loan fees	(25)	—
Proceeds from issuance of common stock, net of issuance costs	102	—
Proceeds from issuance of common stock warrants and options	—	7
Proceeds from exercise of common stock warrants and options	105	30
Payments on capital leases	(46)	(65)
Net cash (used in) provided by financing activities	753	(361)
Net (decrease) increase in cash and cash equivalents	(962)	(4,448)
Cash and cash equivalents at beginning of period	3,560	8,008
Cash and cash equivalents at end of period	\$ 2,598	\$ 3,560
Supplemental cash flow information:		
Interest paid	72	89
Non-cash transactions:		
Property and equipment financed by accounts payable or other accrued liabilities	10	—

See accompanying notes

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1. Basis of Presentation and Significant Accounting Policies

Business

Sonic Foundry, Inc. (the Company) is in the business of providing enterprise solutions and services for the web communications market.

Reverse Stock Split

Effective November 16, 2009, the Company implemented a one-for-ten reverse stock split of its stock (see Note 15). All shares and per share data in this report have been adjusted to reflect this reverse stock split.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany transactions and balances have been eliminated. In 2009 and 2008, net loss equaled comprehensive loss as there were no items of comprehensive income.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates.

Revenue Recognition

General

Revenue is recognized when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sales price is fixed or determinable and collectability is reasonably assured. Revenue is deferred when undelivered products or services are essential to the functionality of delivered products, customer acceptance is uncertain, significant obligations remain, or the fair value of undelivered elements is unknown. The Company does not offer customers the right to return product, other than for exchange or repair pursuant to a warranty or stock rotation. The Company's policy is to reduce revenue if it incurs an obligation for price rebates or other such programs during the period the obligation is reasonably estimated to occur. The following policies apply to the Company's major categories of revenue transactions.

Products

Products are considered delivered, and revenue is recognized, when title and risk of loss have been transferred to the customer. Under the terms and conditions of the sale, this occurs at the time of shipment to the customer. Product revenue currently represents sales of our Mediasite recorder and Mediasite related products such as server software revenue.

Services

We sell support contracts to our customers, typically one year in length and record the related revenue ratably over the contractual period. Our support contracts cover phone and electronic technical support availability over and above the level provided by our distributors, software upgrades on a when and if available basis, advance hardware replacement and an extension of the standard hardware warranty from 90 days to one year. The manufacturer we contract with to build the units performs hardware warranty service. We also sell installation, training, event webcasting, and customer content hosting services. Revenue for those services is recognized when performed in the

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case of installation, training and event webcasting services and is recognized ratably over the contract period for content hosting services. Service amounts invoiced to customers in excess of revenue recognized are recorded as deferred revenue until the revenue recognition criteria are met.

Revenue Arrangements that Include Multiple Elements

Revenue for transactions that include multiple elements such as hardware, software, installation, training, and post customer support is allocated to each element based on vendor-specific objective evidence of the fair value ("VSOE") in accordance with FASB ASC-985-605. Revenue is recognized for each element when the revenue recognition criteria have been met for that element. VSOE is based on the price charged when the element is sold separately. If VSOE of fair value does not exist for all elements in a multiple element arrangement, revenue is allocated first to the fair value of the undelivered elements and the residual revenue to the delivered elements. The Company recognizes revenue for delivered elements only when all of the following criteria are satisfied: undelivered elements are not essential to the functionality of delivered elements, uncertainties regarding customer acceptance are resolved, and the fair value for all undelivered elements is known.

Reserves

We record reserves for stock rotations, price adjustments, rebates, and sales incentives to reduce revenue and accounts receivable for these and other credits we may grant to customers. Such reserves are recorded at the time of sale and are calculated based on historical information (such as rates of product stock rotations) and the specific terms of sales programs, taking into account any other known information about likely customer behavior. If actual customer behavior differs from our expectations, additional reserves may be required. Also, if we determine that we can no longer accurately estimate amounts for stock rotations and sales incentives, we would not be able to recognize revenue until resellers sell the inventory to the final end user.

Shipping and Handling

The Company's shipping and handling costs billed to customers are included in other revenue. Costs related to shipping and handling are included in cost of revenue and are recorded at the time of shipment to the customer.

Concentration of Credit Risk and Other Risks and Uncertainties

The Company's cash and cash equivalents are deposited with two major financial institutions. At times, deposits in these institutions exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on such amounts and believes that it is not exposed to any significant credit risk on these balances.

We perform ongoing credit evaluations of our customers' financial condition and generally do not require collateral. We maintain allowances for potential credit losses and such losses have been within our expectations. We had billings for Mediasite product and support services as a percentage of total billings to one distributor of approximately 29% in 2009 and 44% in 2008.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Trade Accounts Receivable

The majority of the Company's accounts receivable are due from entities in, or distributors or value added resellers to, the education, corporate and government sectors. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are typically due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered to be past due. The Company determines its allowance by

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considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Interest is not accrued on past due receivables.

Inventory Valuation

Inventory consists of raw materials and supplies used in the assembly of Mediasite recorders and finished units. Inventory of completed units and spare parts are carried at the lower of cost or market, with cost determined on a first-in, first-out basis.

Inventory consists of the following (in thousands):

	September 30,	
	2009	2008
Raw materials and supplies	\$ 10	\$ 10
Finished goods	430	320
	\$ 440	\$ 330

Software Development Costs

Internal software development costs are capitalized after technological feasibility is established. The capitalized cost is then amortized on a straight-line basis over the estimated product life, or on the ratio of current revenue to total projected product revenue, whichever is greater. To date, the period between achieving technological feasibility, which the Company has defined as the establishment of a working model, typically occurs when the beta testing commences, and the general availability of such software has been short and software development costs qualifying for capitalization have been insignificant. Accordingly, the Company has not capitalized any internal software development costs.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method for financial reporting purposes. The estimated useful lives used to calculate depreciation are as follows:

	Years
Leasehold improvements	5 to 10 years
Computer equipment	3 to 5 years
Furniture and fixtures	7 years

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property and equipment, capitalized software development costs and other intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is reviewed for impairment annually. Recoverability of an asset is measured by comparing its carrying value to the expected undiscounted cash flows. An impairment is measured by the amount by which the carrying value of the related asset or group of assets exceeds the expected undiscounted cash flows. The Company has recognized no such losses as of September 30, 2009.

Advertising Expense

Advertising costs included in selling and marketing, are expensed when the advertising first takes place. Advertising expense was \$113 and \$306 thousand for years 2009 and 2008, respectively.

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Research and Development Costs

Research and development costs are expensed in the period incurred.

Income Taxes

Deferred income taxes are provided for temporary differences between financial reporting and income tax basis of assets and liabilities, and are measured using currently enacted tax rates and laws. Deferred income taxes also arise from the future benefits of net operating loss carryforwards. A valuation allowance equal to 100% of the net deferred tax assets has been recognized due to uncertainty regarding the future realization of these assets, excluding the deferred tax liability for goodwill amortization.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and debt instruments. The book values of cash and cash equivalents, accounts receivable, debt and accounts payable are considered to be representative of their respective fair values. The carrying value of capital lease obligations, including the current portion, approximates fair market value as the fixed rate approximates the current market rate of interest available to the Company.

Stock-Based Compensation

The Company uses a lattice valuation model to account for all stock options granted subsequent to September 30, 2005. The lattice valuation model is a more flexible analysis to value options because of its ability to incorporate inputs that change over time, such as actual exercise behavior of option holders. The Company uses historical data to estimate the option exercise and employee departure behavior in the lattice valuation model. Expected volatility is based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The Company considers all employees to have similar exercise behavior and therefore has not identified separate homogenous groups for valuation. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods the options are expected to be outstanding is based on the U.S. Treasury yields in effect at the time of grant.

The fair value of each option grant is estimated using the assumptions in the following table:

	Years Ending September 30,	
	2009	2008
Expected life (years)	5.7 – 6.0 years	5.7 – 6.0 years
Risk-free interest rate	1.3% - 1.7%	2.2% - 3.4%
Expected volatility	80.2% - 87.0%	63.1% - 76.4%
Expected dividend yield	0%	0%

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Per Share Computation

Basic and diluted net loss per share information for all periods is presented under the requirements of FASB ASC-260-10. Basic earnings per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less shares that may be repurchased, and excludes any dilutive effects of options and warrants. If the Company had reported net income during the periods presented below, diluted net income per share would have been computed using common equivalent shares related to outstanding options and warrants to purchase common stock. The numerator for the calculation of basic and diluted earnings per share is net income (loss). The following table sets forth the computation of basic and diluted weighted average shares used in the earnings per share calculations:

	Years ended September 30,	
	2009	2008
Denominator for basic earnings per share - weighted average common shares	3,598,040	3,557,966
Effect of dilutive options and warrants (treasury method)	—	—
Denominator for diluted earnings per share - adjusted weighted average common shares	3,598,040	3,557,966
Options and warrants outstanding during each year, but not included in the computation of diluted earnings per share because they are antidilutive	816,256	680,688

Recent Accounting Pronouncements

In September 2006, the FASB issued guidance, which provided enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. The adoption of this standard on October 1, 2008 for financial assets and liabilities did not have a material effect on the Company's results of operations or financial position. In February 2008, the FASB issued additional guidance which deferred the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually), to fiscal years beginning after November 15, 2008. Early adoption is permitted. The adoption of this standard related to non financial assets and liabilities on October 1, 2009 is not expected to have a material effect on the Company's results of operations or financial position other than requiring additional disclosures for those items where non-recurring fair valuing of certain assets is performed.

In February 2007, the FASB issued guidance which permits but does not require the Company to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

In December 2007, the FASB issued guidance which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. This guidance is effective for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

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In April 2008, the FASB issued guidance that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The guidance is effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued guidance concerning interim disclosures about fair value of financial instruments requiring publicly traded companies to provide disclosure about the fair value of financial instruments whenever interim summarized financial information is reported. Previously, disclosures about the fair value of financial instruments were only required on an annual basis. Disclosure shall include the method(s) and significant assumptions used to estimate the fair value of financial instruments and shall describe changes in method(s) and significant assumptions, if any, during the period. This guidance was effective for interim and annual periods ending after June 15, 2009, and, as such, the Company began including this disclosure with its third quarter 2009 financial statements.

In May 2009, the FASB issued guidance regarding the disclosure of subsequent events. This guidance made no changes to current accounting but added required disclosures regarding the date through which the Company has evaluated subsequent events and whether that evaluation date is the date of financial statement issuance or the date the financial statements were available to be issued. This guidance was effective, and adopted by the Company, for interim and annual periods ending after June 15, 2009.

In June 2009, the FASB approved the "FASB Accounting Standards Codification" (the "Codification") as the single source of authoritative nongovernmental U.S. GAAP to be launched on July 1, 2009. The codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The Codification is effective for interim and annual periods ending after September 15, 2009. Adoption by the Company has not led to any material impact on its consolidated financial position, results of operation or cash flows.

At its September 23, 2009 board meeting, the FASB ratified final consensus on revenue arrangements with multiple deliverables. This Issue supersedes FASB ASC 605-25. The issue addresses the unit of accounting for arrangements involving multiple deliverables. It also addresses how arrangement consideration should be allocated to the separate units of accounting, when applicable. However, guidance on determining when the criteria for revenue recognition are met and on how an entity should recognize revenue for a given unit of accounting are located in other sections of the Codification. The issue will ultimately be issued as an Accounting Standards Update (ASU) that will amend FASB ASC 605-25. Final consensus is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this Issue (1) prospectively to new or materially modified arrangements after the Issue's effective date or (2) retrospectively for all periods presented. The Company does not believe that revisions to FASB ASC 605-25 will have a material impact on the Company's consolidated financial statements.

At its September 23, 2009 board meeting, the FASB also ratified final consensus on software revenue recognition. This Issue amends FASB ASC 985-605 and FASB ASC 985-605-15-3 to exclude from their scope all tangible products containing both software and non-software components that function together to deliver the product's essential functionality. That is, the entire product (including the software deliverables and non-software deliverables) would be outside the scope of FASB ASC 985-605 and would be accounted for under other accounting literature. The revised scope of FASB ASC 985-605 will ultimately be issued as an Accounting Standards Update (ASU) that will amend the ASC. The final consensus is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this Issue (1) prospectively to new or materially modified arrangements after the Issue's effective date or (2) retrospectively for all periods presented. Early application is permitted. The Company does not believe that FASB ASC 985-605 will have a material impact on the Company's consolidated financial statements.

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Subsequent to the issuance of the Codification, the FASB has released Accounting Standard Update Nos. 2009-01 through 2009-15. The Company has reviewed each of these updates and determined that none will have a material impact on the Company's financial statements.

2. Prior Year Revisions

During 2009, the Company identified an issue requiring revision of the prior period financial statements relating to the presentation of disclosure of Deferred Tax Liabilities. Beginning with an acquisition in fiscal year 2002, the Company has amortized Goodwill for tax purposes over a 15 year life. Goodwill is not amortized for book purposes. Annual impairment tests are performed for book purposes and the balance of goodwill is to be written down if impairment occurs. The impairment tests have not indicated any goodwill impairment.

The difference between the book and tax balance of Goodwill creates a Deferred Tax Liability and an annual tax expense. Because of the long term nature of the goodwill timing difference, tax planning strategies cannot be applied related to the Deferred Tax Liability. The balance of the Deferred Tax Liability at September 30, 2008 was \$1.1 million. This amount was disclosed in the footnotes but was omitted from the consolidated balance sheet. Management incorrectly netted the amount with the \$36 million Deferred Tax Assets, which are also disclosed in the footnotes but not recorded on the consolidated balance sheet. Because of the long-term nature of the goodwill timing difference, these amounts cannot be netted.

Management has deemed this to be not material in the prior periods presented; however, management has elected to revise the statements under the guidance of SEC SAB 108 as the difference between book and tax goodwill, i.e., the Deferred Tax Liability, will continue to increase and could become material in future periods.

Management has correctly recorded the Deferred Tax Liability and corresponding expense in fiscal year 2009 and has corrected prior year amounts on the financial statements and disclosures beginning with this fiscal year 2009 10-K filing. Refer to Note 8 for additional details.

The following table discloses selected fiscal 2008 financial information as originally presented and as revised.

Balance Sheet	September 30, 2008		
	As Presented	Adjust- ments	Revised
(in thousands)			
Deferred tax liability	\$ -	\$ 1,108	\$ 1,108
Total liabilities	7,911	1,108	9,019
Accumulated deficit	(174,803)	(1,108)	(175,911)
Total stockholders' equity	<u>\$ 9,563</u>	<u>\$ (1,108)</u>	<u>\$ 8,455</u>
Year Ended			
September 30, 2008			
Statement of Operations	As	Adjust- ments	Revised
(in thousands except share and per share data)	Presented	ments	Revised
Provision for income taxes	\$ -	\$ (256)	\$ (256)
Net loss	<u>\$ (7,873)</u>	<u>(256)</u>	<u>\$ (8,129)</u>
Loss per common share:			
Basic net loss per common share	<u>\$ (2.21)</u>	<u>\$ (0.07)</u>	<u>\$ (2.28)</u>
Diluted net loss per common share	<u>\$ (2.21)</u>	<u>\$ (0.07)</u>	<u>\$ (2.28)</u>

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Statement of Stockholder's Equity	September 30, 2008		September 30, 2008	
	As Presented		As Revised	
(in thousands)	Accumulated Deficit	Total	Accumulated Deficit	Total
Net loss	\$ (7,873)	\$ (7,873)	\$ (8,129)	\$ (8,129)
Balance, September 30, 2008	\$ (174,803)	\$ 9,563	\$ (175,911)	\$ 8,455

Statement of Cash Flows	Year Ended September 30, 2008		
	As Presented	Adjust- ments	Revised
(in thousands)			
Provision for income taxes	\$ -	\$ 256	\$ 256

3. Commitments

The Company leases certain equipment under capital lease agreements expiring through April 2010. Such leases are included in fixed assets with a cost of \$168 thousand and accumulated depreciation of \$133 thousand at September 30, 2009. Minimum lease payments, including principal and interest, are summarized in the table below.

<u>Fiscal Year (in thousands)</u>	<u>Capital</u>
2010	\$ 25
Total payments	25
Less interest	(1)
Total	\$ 24

The Company leases certain facilities and equipment under operating lease agreements expiring at various times through September 30, 2011. Total rent expense related to continuing operations on all operating leases was approximately \$484 and \$622 for the years ended September 30, 2009 and 2008, respectively.

The following is a schedule by year of future minimum lease payments under operating leases:

<u>Fiscal Year (in thousands)</u>	<u>Operating</u>
2010	\$ 501
2011	509
2012 and thereafter	-
Total	\$ 1,010

The Company enters into unconditional purchase commitments on a regular basis for the supply of Mediasite recorders. The Company has an obligation to purchase a remaining \$572 thousand, which is not recorded on the Company's Balance Sheet.

The Company enters into license agreements that generally provide indemnification against intellectual property claims for its customers as well as indemnification agreements with certain service providers, landlords and other parties in the normal course of business. The Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the consolidated financial statements.

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4. Liquidity

In response to a history of recurring operating losses, the Company initiated cost reduction efforts in January 2008. These efforts achieved a 24% reduction in quarterly operating expenses during fiscal 2008. Continued efforts to control costs and improve revenues led to a 19% growth in revenues, an increase of three percentage points in gross margin and further reductions in operating costs in fiscal 2009. The Company anticipates further improvements in the gross margin rate and further reductions in operating expenses in fiscal 2010 and therefore believes its cash position is adequate to accomplish its business plan through at least the next twelve months, even if revenues in fiscal 2010 do not continue to improve. We may evaluate further operating or capital lease opportunities to finance equipment purchases in the future or utilize the Company's revolving line of credit to support working capital needs, if the Company deems it advisable to do so. We may also seek additional equity financing, or issue additional shares previously registered in our available shelf registration, although we currently have no plans to do so.

On April 14, 2009, the Company executed the First Amendment to the Amended and Restated Loan and Security Agreement (the "First Amendment") with Silicon Valley Bank which extended an existing credit facility in the form of a \$3,000,000 secured revolving line of credit and a \$1,000,000 term loan. While the Company anticipates limited use of the line of credit and that it will be in compliance with all provisions of the agreement, there can be no assurance that the existing Amended Loan Agreement will remain available to the Company nor that additional financing will be available or on terms acceptable to the Company.

5. Credit Arrangements

On June 16, 2008, the Company and its wholly-owned subsidiary, Sonic Foundry Media Systems, Inc. (collectively, the "Companies") entered into an Amended and Restated Loan and Security Agreement (the "Amended Loan Agreement") with Silicon Valley Bank providing for a credit facility in the form of a \$3,000,000 secured revolving line of credit and a \$1,000,000 term loan. The ability to borrow up to the maximum \$3,000,000 amount of the revolving line of credit is determined by applying an applicable percentage to eligible accounts receivable, which, is reduced by, among other things, a reserve. Prior to the First Amendment, discussed below, the reserve was equal to the balance of the term loan when EBITDA, as defined, would have been less than \$200,000 during the preceding six month period. The revolving line of credit accrues interest at a per annum rate equal to the following: (i) during such period that Sonic Foundry maintains an Adjusted Quick Ratio (as defined) of greater than 2.00 to 1.00, the greater of one percentage point (1.0%) above Silicon Valley's prime rate, or seven percent (7.0%); or (ii) during such period that Sonic Foundry maintains an Adjusted Quick Ratio equal to or less than 2.00 to 1.00, the greater of one and one-half percent (1.5%) above Silicon Valley's prime rate, or seven and one-half percent (7.5%). Under the Amended Agreement, the term loan will continue to accrue interest at a per annum rate equal to the greater of (i) one percentage point (1.0%) above Silicon Valley's prime rate; or (ii) eight and three quarters percent (8.75%). Prior to the First Amendment, the maturity of both the term loan and the revolving line of credit was June 1, 2010. At the maturity date all outstanding borrowings and any unpaid interest thereon must be repaid, and all outstanding letters of credit must be cash collateralized. Principal on the term loan is to be repaid in thirty-six (36) monthly installments, and prior to the First Amendment, was to be repaid in full on May 1, 2010.

The Amended Loan Agreement contains certain financial covenants, including a covenant requiring the Companies to maintain certain of their depository, operating and securities accounts with Silicon Valley Bank, and a covenant relating to EBITDA ("EBITDA Covenant"); however, the EBITDA Covenant will not have to be satisfied provided that Sonic Foundry maintains an Adjusted Quick Ratio (as defined) greater than or equal to 1.75 to 1.00. The Amended Loan Agreement also contains certain other restrictive loan covenants, including covenants limiting the Companies' ability to dispose of assets, make acquisitions, be acquired, incur indebtedness, grant liens, make investments, pay dividends, and repurchase stock. At September 30, 2009 the Company was in compliance with all covenants in the Amended Loan Agreement, as amended by the First Amendment to the Amended and Restated Loan Agreement ("First Amendment").

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The Amended Loan Agreement contains events of default that include, among others, non-payment of principal or interest, inaccuracy of any representation or warranty, violation of covenants, bankruptcy and insolvency events, material judgments, cross defaults to certain other indebtedness, and material adverse changes. The occurrence of an event of default could result in the acceleration of the Companies' obligations under the Amended Loan Agreement.

Pursuant to the Amended Loan Agreement, the Company and its wholly-owned subsidiary pledged as collateral to the Bank substantially all non-intellectual property business assets, and entered into an Intellectual Property Security Agreement with respect to intellectual property assets.

On April 14, 2009, the Company executed the First Amendment with Silicon Valley Bank. The First Amendment, among other things, a) refinances the \$361,111 outstanding balance of the Term Loan with a new "Term Loan 2" in the amount of \$1,000,000, due in 36 equal monthly installments of principal and interest; b) modifies the method of determining the requirement for a reserve under the Revolving Line for the balance of the term loan to require a reserve unless, for three (3) consecutive monthly periods, the ratio of EBITDA to Debt Service, in each case for the three (3) month period then ending is greater than or equal to 1.25 to 1.00; c) modifies the minimum requirements under the EBITDA covenant, but maintains the provision to override such covenant if the Company maintains a minimum Quick Ratio of 1.75 to 1.00; and d) extends the maturity date of the Revolving Line to October 1, 2011 and the Term Loan 2 to April 1, 2012. At September 30, 2009, a balance of \$873 thousand was remaining on the term loan and a balance of \$300 thousand was outstanding on the revolving line of credit. At September 30, 2009, there was \$800 thousand available under this credit facility for advances.

The annual principal payments on the term loan are as follows:

<u>Fiscal Year (in thousands)</u>	
2010	\$ 316
2011	344
2012	213
Total	<u><u>\$ 873</u></u>

6. Common Stock Warrants

The Company has issued restricted common stock purchase warrants to various consultants and other third parties. Each warrant represents the right to purchase one share of common stock. All warrants are currently exercisable. The Company did not grant any warrants in fiscal 2009 and granted warrants to purchase 750 warrants in fiscal 2008. All such warrants are either valued and expensed in full at the date of grant or valued at the date of grant and deferred over the term of the relevant contract for services.

<u>Exercise Prices</u>	<u>Warrants Outstanding at September 30, 2009</u>	<u>Expiration Date</u>
\$ 9.90 to 15.40	38,200	2009 to 2011
21.10 to 37.10	10,550	2011 to 2017
112.30	890	2010
	<u><u>49,640</u></u>	

7. Stock Options and Employee Stock Purchase Plan

The Company maintains an employee qualified stock option plan under which the Company may grant options to acquire up to 700 thousand shares of common stock and a non-qualified plan under which 380 thousand shares of common stock can be issued. On March 5, 2009, Stockholders approved adoption of the 2009 Stock Incentive Plan (the "2009 Plan"). The 2009 Plan will, beginning October 1, 2009, replace both plans. The Company also

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maintains a directors' stock option plan under which options may be issued to purchase up to an aggregate of 50,000 shares of common stock. Each non-employee director, who is re-elected or who continues as a member of the board of directors on each annual meeting date and on each subsequent meeting of Stockholders, will be granted options to purchase 2,000 shares of common stock under the directors' plan, or at other times or amounts at the discretion of the Board of Directors.

Each option entitles the holder to purchase one share of common stock at the specified option price. The exercise price of each option granted under the plans was set at the fair market value of the Company's common stock at the respective grant date. Options vest at various intervals and expire at the earlier of termination of employment, discontinuance of service on the board of directors, ten years from the grant date or at such times as are set by the Company at the date of grant.

Compensation cost for options will be recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period. There were no capitalized stock-based compensation costs at September 30, 2009.

The number of shares available for grant under these plans at September 30 is as follows:

	Employee Stock Option Plans	Non- Qualified Stock Option Plan	Director Stock Option Plans
Shares available for grant at September 30, 2007	216,031	72,549	10,000
Shareholder approval of 2008 Director Plan	-	-	50,000
Options granted	(187,075)	(70,550)	(10,000)
Options forfeited	86,376	20,000	4,000
Options remaining at expiration of plan	-	-	(14,000)
Shares available for grant at September 30, 2008	115,332	21,999	40,000
Options granted	(188,690)	(42,750)	(10,000)
Options forfeited	50,533	22,746	-
Shareholder approval of 2009 Stock Incentive Plan	400,000	-	-
Options remaining at expiration of plan	(1,776)	(1,995)	-
Shares available for grant at September 30, 2009	<u>375,399</u>	<u>-</u>	<u>30,000</u>

The following table summarizes information with respect to outstanding stock options.

	Years Ended September 30,			
	2009		2008	
Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	
Outstanding at beginning of year	624,044	\$ 20.50	471,230	\$ 24.10
Granted	241,440	5.90	267,625	11.50
Exercised	(19,592)	5.30	(4,432)	6.90
Forfeited	(79,279)	21.00	(110,379)	19.10
Outstanding at end of year	<u>766,615</u>	<u>\$ 16.20</u>	<u>624,044</u>	<u>\$ 20.50</u>
Exercisable at end of year	<u>466,434</u>		<u>426,802</u>	
Weighted average fair value of options granted during the year	<u>\$ 3.40</u>		<u>\$ 5.50</u>	

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The options outstanding at September 30, 2009 have been segregated into six ranges for additional disclosure as follows:

Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding at September 30, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at September 30, 2009	Weighted Average Exercise Price
\$ 4.20 to \$9.90	333,411	8.9	\$ 6.21	95,087	\$ 5.94
10.00 to 19.40	368,654	4.5	12.95	316,883	12.55
20.00 to 29.00	24,641	5.9	22.96	20,136	22.70
30.00 to 39.50	25,500	7.3	37.29	20,650	37.36
40.00 to 66.10	8,259	4.0	51.73	7,457	52.61
155.00 to 587.98	6,150	0.5	587.98	6,150	587.98
	766,615			466,363	

As of September 30, 2009, there was \$601 thousand of total unrecognized compensation cost related to non-vested share-based compensation, net of \$229 thousand of estimated forfeitures. The cost is expected to be recognized over a weighted-average life of 1.6 years.

A summary of the status of the company's non-vested shares as of September 30, 2009 and for the year then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares at October 1, 2008	197,244	\$ 7.70
Granted	241,440	3.40
Vested	(128,169)	5.70
Forfeited	(9,500)	7.10
Non-vested shares at September 30, 2009	301,015	\$ 5.10

Stock-based compensation recorded in the year ended September 30, 2009 of \$584 thousand was allocated \$375 thousand to selling and marketing expenses, \$52 thousand to general and administrative expenses and \$157 thousand to product development expenses. Stock-based compensation recorded in the year ended September 30, 2008 of \$639 thousand was allocated \$352 thousand to selling and marketing expenses, \$90 thousand to general and administrative expenses and \$197 thousand to product development expenses. Cash received from option exercises under all stock option plans for the years ended September 30, 2009 and 2008 was \$105 thousand and \$30 thousand, respectively. There were no tax benefits realized for tax deductions from option exercises for the years ended September 30, 2009 and 2008. The Company currently expects to satisfy share-based awards with registered shares available to be issued.

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8. Income Taxes

The provision for income taxes consists of the following (in thousands):

	<u>Years Ended September 30,</u>	
	<u>2009</u>	<u>Revised 2008</u>
Federal income tax	\$ 142	\$ 256
Deferred income tax expense (benefit)	(1,033)	(3,335)
Change in valuation allowance	1,033	3,335
Provision for income taxes	<u>\$ 142</u>	<u>\$ 256</u>

The reconciliation of income tax expense (benefit) computed at the U.S. federal statutory rate to income tax expense (benefit) is as follows (in thousands):

	<u>Years Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
Income tax expense (benefit) at U.S. statutory rate of 34%	\$ (851)	\$ (2,677)
State income tax expense (benefit)	(130)	(409)
Permanent differences, net	14	19
Adjustment of temporary differences to income tax returns	76	12
Change in valuation allowance	1,033	3,335
Income tax expense	<u>\$ 142</u>	<u>\$ 256</u>

The significant components of the deferred tax accounts recognized for financial reporting purposes are as follows (in thousands):

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
Net operating loss and other carryforwards	\$ 34,566	\$ 33,750
Common stock warrants	1,997	1,769
Allowance for doubtful accounts	41	59
Other	74	67
Total deferred tax assets	<u>36,678</u>	<u>35,645</u>
Valuation allowance	(36,678)	(35,645)
Goodwill amortization	(1,250)	(1,108)
Deferred tax liability for goodwill amortization	<u>\$ (1,250)</u>	<u>\$ (1,108)</u>

At September 30, 2009, the Company had net operating loss carryforwards of approximately \$87 million for both U.S. Federal and state tax purposes, which expire in varying amounts between 2013 and 2029. Utilization of the Company's net operating loss may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization. In addition, the Company has research and development tax credit carryforwards of approximately \$544 thousand, which expire in varying amounts beginning 2011. The Company's net deferred tax asset has been offset by a valuation allowance of the same amount. The valuation allowance has been recorded due to the uncertainty of realization of the deferred tax asset.

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Beginning with an acquisition in fiscal year 2002, the Company has amortized Goodwill for tax purposes over a 15 year life. Goodwill is not amortized for book purposes. Annual impairment tests are performed for book purposes and the balance of goodwill is to be written down if impairment occurs. The impairment tests have not indicated any goodwill impairment.

The difference between the book and tax balance of Goodwill creates a Deferred Tax Liability and an annual tax expense. Because of the long term nature of the goodwill timing difference, tax planning strategies cannot be applied related to the Deferred Tax Liability. The balance of the Deferred Tax Liability at September 30, 2008 was \$1.1 million. This amount was disclosed in the footnotes but was omitted from the consolidated balance sheet. Management incorrectly netted the amount with the \$36 million Deferred Tax Assets, which are also disclosed in the footnotes, but not recorded on the consolidated balance sheet. Because of the long-term nature of the goodwill timing difference, these amounts cannot be netted.

Management has deemed this to be not material in the prior periods presented; however, management has elected to revise the statements under the guidance of SEC SAB 108 as the difference between book and tax goodwill, i.e., the Deferred Tax Liability, will continue to increase and could become material in future periods.

Management has correctly recorded the Deferred Tax Liability and corresponding expense in fiscal year 2009 and has revised prior year amounts on the financial statements and disclosures beginning with this fiscal year 2009 10-K filing. Refer to Note 8 for additional details.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accruals for interest and penalties on the Company's Balance Sheets at September 30, 2009 and 2008, and has not recognized any interest or penalties in the Statement of Operations for the years ended September 30, 2009 or 2008.

The Company is subject to taxation in the U.S. and various state jurisdictions. All of the Company's tax years are subject to examination by the U.S. and state tax authorities due to the carryforward of unutilized net operating losses.

9. Savings Plan

The Company's defined contribution 401(k) savings plan covers substantially all employees meeting certain minimum eligibility requirements. Participating employees can elect to defer a portion of their compensation and contribute it to the plan on a pretax basis. The Company may also match certain amounts and/or provide additional discretionary contributions, as defined. The Company made discretionary contributions of \$307 and \$293 thousand during the years ended September 30, 2009 and 2008, respectively.

The Company also has an Employee Stock Purchase Plan (Purchase Plan) under which an aggregate of 50,000 common shares may be issued. All employees who have completed 90 days of employment with the company on the first day of each offering period are eligible to participate in the Purchase Plan. An employee who, after the grant of an option to purchase, would hold common stock and/or hold outstanding options to purchase stock possessing 5% or more of the total combined voting power or value of the company will not be eligible to participate. Eligible employees may make contributions through payroll deductions of up to 10% of their compensation. No participant in the Purchase Plan is permitted to purchase common stock under the Purchase Plan if such option would permit his or her rights to purchase stock under the Purchase Plan to accrue at a rate that exceeds \$25,000 of the fair market value of such shares, or that exceeds 1,000 shares, for each calendar year. The company makes a bi-annual offering to eligible employees of options to purchase shares of common stock under the Purchase Plan on the first trading day of January and July. Each offering period is for a period of six months from the date of the offering, and each eligible employee as of the date of offering is entitled to purchase shares of common stock at a purchase price equal to the lower of 85% of the fair market value of common stock on the first or last trading day of the offering period. There were 27,162 shares purchased by employees during 2009. The Company recorded stock compensation expense of \$57 thousand during 2009. There was no such expense in 2008.

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10. Related-Party Transactions

The Company incurred fees of \$255 and \$249 thousand during the years ended September 30, 2009 and 2008, respectively, to a law firm whose partner is a director and stockholder of the Company. The Company had accrued liabilities for unbilled services of \$19 thousand at September 30, 2009 to the same law firm. There were no unbilled services at September 30, 2008.

The Company recorded Mediasite product and customer support revenue related to \$600 and \$580 thousand of billings during the years ended September 30, 2009 and 2008 to Mediasite KK, a Japanese reseller in which the Company has an equity interest. Mediasite KK owed the Company \$128 and \$108 thousand on such billings at September 30, 2009 and 2008, respectively. The Company accounts for its investment in Mediasite KK under the equity method. The recorded value as of September 30, 2009 and 2008 is zero.

During the years ended September 30, 2009 and 2008, the Company had a loan outstanding to an executive totaling \$26 thousand. The loan is collateralized by company stock.

11. Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with FASB ASC-350 which requires that goodwill and intangible assets that have indefinite useful lives not be amortized but, instead, tested at least annually for impairment. We assess the impairment of goodwill and capitalized software development costs on an annual basis or whenever events or changes in circumstances indicate that the fair value of these assets is less than the carrying value.

If we determine that the fair value of goodwill is less than its carrying value, based upon the annual test or the existence of impairment, we would then measure impairment based on a comparison of the implied fair value of goodwill with the carrying amount of goodwill. To the extent the carrying amount of goodwill is greater than the implied fair value of goodwill, we would record an impairment charge for the difference.

On July 1, 2009, the Company performed its annual goodwill impairment test and tested goodwill recognized in connection with the acquisition of Mediasite and determined it was not impaired. Subsequent impairment charges for Mediasite or other acquisitions, if any, will be reflected as an operating expense in the statement of operations.

The following tables present details of the Company's total intangible assets at September 30, 2009 and 2008:

(in thousands)	Life (years)	Gross	Accumulated Amortization at September 30, 2009	Balance at September 30, 2009
Amortizable:				
Loan origination fees	3	\$ 65	\$ 35	\$ 30
		65	35	30
Non-amortizable goodwill		7,576	-	7,576
Total		\$ 7,641	\$ 35	\$ 7,606

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(in thousands)	Life (years)	Gross	Accumulated Amortization at September 30, 2008	Balance at September 30, 2008
Amortizable:				
Loan origination fees	3	\$ 40	\$ 19	\$ 21
		40	19	21
Non-amortizable goodwill				
		7,576	-	7,576
Total		\$ 7,616	\$ 19	\$ 7,597

12. Segment Information

The Company has determined that it operates in only one segment in accordance with FASB ASC-280-10 as it does not disaggregate profit and loss information on a segment basis for internal management reporting purposes to its chief operating decision maker.

The Company's long-lived assets maintained outside the United States are insignificant.

The following summarizes revenue by geographic region (in thousands):

	Years Ended September 30,	
	2009	2008
United States	\$ 13,372	\$ 12,599
Europe and Middle East	3,974	1,676
Asia	686	626
Other	545	700
Total	\$ 18,577	\$ 15,601

13. Customer Concentration

In the fiscal year ended September 30, 2009 and 2008, one distributor represented 29% and 44% of total revenue.

14. Quarterly Financial Data (unaudited)

The following table sets forth selected quarterly financial information for the years ended September 30, 2009 and 2008. The operating results are not necessarily indicative of results for any future period.

(in thousands except per share data)	Quarterly Financial Data							
	Q4-'09	Q3-'09	Q2-'09	Q1-'09	Revised Q4-'08	Q3-'08	Q2-'08	Q1-'08
Revenue	\$ 4,128	\$ 5,027	\$ 5,413	\$ 4,009	\$ 4,065	\$ 5,087	\$ 3,929	\$ 2,520
Gross margin	3,113	3,932	4,083	3,118	2,940	3,783	2,775	1,898
Loss from operations	(952)	(151)	(144)	(1,231)	(1,218)	(820)	(2,273)	(3,572)
Net loss	(1,090)	(162)	(152)	(1,240)	(1,482)	(829)	(2,278)	(3,540)
Basic and diluted net loss per share	\$ (0.30)	\$ (0.04)	\$ (0.04)	\$ (0.35)	\$ (0.42)	\$ (0.23)	\$ (0.64)	\$ (1.00)

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15. Subsequent Event

The Company completed a one-for-ten reverse stock split of its stock effective at the end of trading on November 16, 2009. The number of shares of Sonic Foundry common stock issued and outstanding have been reduced from approximately 36,069,000 shares to approximately 3,606,900 shares post-split, without accounting for the payout on fractional shares. This reverse stock split has been reflected in the share and per share data presented throughout this report.

Management has considered all events through the filing date, December 4, 2009, and determined that no additional subsequent event disclosures are necessary.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on evaluations as of the end of the period covered by this report, our principal executive officer and principal financial officer, with the participation of our management team, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e), and 15d-15(e) under the Securities Exchange Act) were effective.

Limitations on the effectiveness of Controls and Permitted Omission from Management's Assessment

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can only provide reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f).

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, our management believes that, as of September 30, 2009, our internal control over financial reporting was effective based on those criteria.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, we have not made any change to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by Item 10 of Form 10-K with respect to directors and executive officers is incorporated herein by reference to the information contained in the section entitled “Proposal One: Election of Directors” and “Executive Officers of Sonic”, respectively, in the Company’s definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Company’s 2009 Annual Meeting of Stockholders, which will be filed no later than January 28, 2010 (the “Proxy Statement”).

Item 405 of Regulation S-K calls for disclosure of any known late filings or failure by an insider to file a report required by Section 16(a) of the Securities Act. This information is contained in the Section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement and is incorporated herein by reference.

Item 401 of Regulation S-K calls for disclosure of whether or not the Company has a financial expert serving on the audit committee of its Board of Directors, and if so who that individual is. This information is contained in the Section entitled “Meetings and Committees of Directors” in the Proxy Statement and is incorporated herein by reference.

Item 407 of Regulation S-K calls for disclosure of whether or not the Company has an audit committee and a financial expert serving on the audit committee of the Board of Directors, and if so, who that individual is. Item 407 also requires disclosure regarding the Company’s nominating committee and the director nomination process. This information is contained in the section entitled “Meetings and Committees of Directors” in the Proxy Statement and is incorporated herein by reference.

Sonic Foundry has adopted a code of ethics that applies to all officers and employees, including Sonic Foundry’s principal executive officer, its principal financial officer, and persons performing similar functions. This code of ethics is available, without charge, to any investor who requests it. Request should be addressed in writing to Mr. Kenneth A. Minor, Corporate Secretary, 222 West Washington Avenue, Madison, Wisconsin 53703.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 of Form 10-K is incorporated herein by reference to the information contained in the sections entitled “Directors Compensation”, “Executive Compensation and Related Information” and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 of Form 10-K is incorporated herein by reference to the information contained in the sections entitled “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement. Information related to equity compensation plans is set forth in Item 5 herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 of Form 10-K is incorporated herein by reference to the information contained in the section entitled “Certain Transactions” and “Meetings and Committees of Directors” in the Proxy Statement.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 of Form 10-K is incorporated herein by reference to the information contained in the section entitled “Ratification of Appointment of Independent Auditors – Fiscal 2008 and 2009 Audit Fee Summary” in the Proxy Statement.

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- Quem tem 'Voz' digital?

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