FOUNDRY | **ANNUAL REPORT 2011** | SONIC FOUNDRY | **ANNUAL REPORT 2011**

Fellow shareholders,

I joined Sonic Foundry as Chief Executive Officer in April, having had the pleasure of serving on its Board of Directors for seven years. As a board member I have always been proud of the award-winning Mediasite webcasting technology, and now at the helm, I have a newfound appreciation for the staff that brings this technology to life and to market. The unique corporate culture of this dedicated, passionate team, coupled with the devoted client base they have nurtured, convinced me to join and lead them to even greater success than has been achieved to date.

2011 was a great year for the company and its clients:

- We achieved a greater position of financial strength with continued, strong revenue growth and a strong balance sheet with significant cash generation and little debt.
- Our customer base swelled to over 2,400, with 1000 colleges and universities now relying on Mediasite - more than any other lecture capture platform.
- The Mediasite Events team webcasted over 450 conferences and meetings, forging solid partnerships with the most respected event production companies in the industry.
- We launched our most aggressive product release to date, Mediasite 6, which included the first and broadest range of live mobile streaming from a professional-grade webcasting appliance and rich media management platform.
- Sonic Foundry was recognized in six Gartner hype cycles, and Mediasite was named Best Video Capture, Publishing and Production Solution by *Elearning! Magazine* and Best Portable Live Streaming Appliance by *Streaming Media Magazine* readers.
- Over sixty articles covered the company and Mediasite platform, including *The Street* and all of the leading education journals and meeting industry publications.
- Attendance at our fifth Annual UNLEASH Mediasite User Conference set records for both onsite and online participants.

At our core, Sonic Foundry is about the business of education, regardless of the individual verticals we serve. In higher education, we provide colleges and universities with lecture capture, distance education and blended or online learning. In corporate and government, we make elearning, training and executive communications with global staff possible. In the world of meetings and conferences, we capture knowledge normally lost after a few days onsite to build enduring online archives for continuing education and professional development. But what is the common denominator in each? Education.

And there has never been a more exciting time in education:

- The ubiquity of laptops, mobile devices and internet access means the delivery of education and training is self-serve and always on, akin to the evolution we are currently seeing with entertainment video, from broadcast to DVRs to mobile live and on-demand streaming.
- Our market is on the go and on-demand, with both students and workers expecting immediate access to educational content regardless of time or place.

- Budget cuts, travel bans and high fuel prices leave students, adult learners and workers seeking alternatives to place-based learning at colleges and conferences, and studies have shown students place a higher value on education that is complemented with lectures online.
- Rapidly changing job requirements, high turnover and re-training drive the need for blended/hybrid or fully online learning programs to support adults making career changes or seeking lifelong learning to advance their careers.

All indications are that the shifting economic winds will continue to challenge the present education delivery models and funding. Yet these trends, and the experts who monitor them, tell us we are well-positioned to add meaningful value to the delivery, consumption and ultimate execution of education. In spite of all the economic uncertainty, our prospects are looking to technology, and specifically to Mediasite, to help them do more with less. They are investing in lecture capture and webcasting because technology like ours doesn't impede their financial progress. It enhances it.

There is no question that we are the global leader in room-based lecture capture technology and mobile webcasting, having earned a decade of awards and accolades for our technology. We are the architects of the most efficient workflow for automating what was once an arduous and resource-intensive process to capture, deliver and manage video-based communications. We offer the most coveted interface for playing back those rich media presentations and the most sophisticated repository for securing and archiving them.

But we have the opportunity to do more.

In the new year, we will introduce new initiatives designed to accelerate revenue growth by:

- Making exciting new investments for applications involving HD, complex medical communications, student-centric viewing and harnessing the growing number of orphaned video assets across dispersed media in the enterprise.
- Expanding into adjacent market segments where we have an opportunity for minimum investment and maximum return.
- Enhancing our leadership position to seize new opportunities presented by the class, meeting and training rooms of the future, embracing the changing dynamics and media for collaboration, learning and working.
- Continuing to deliver outstanding customer service as we grow both the number of customers served and the richness of our products.

I look forward to sharing more information about these initiatives with you at the Annual Shareholders Meeting in March. I couldn't be more optimistic about our vision as we look forward to providing greater value for our customers. Combined these initiatives should serve to improve the fundamentals of the company, and that is the surest path to improving shareholder value in 2012 and beyond.

Gary Weis
Chief Executive Officer

sonicfoundry®

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held March 7, 2012

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 7, 2012 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 vote on a Proposal to amend the 2009 Stock Incentive Plan to increase the number of shares of common stock subject to the plan by 600,000.

3. To vote on a Proposal to amend the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan to increase the number of shares of common stock subject to the plan by 50,000.

4. To ratify the appointment of Grant Thornton LLP as our independent auditors for the fiscal year ending September 30, 2012.

5. 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, 2012 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

Madison, Wisconsin
January 24, 2012

Kenneth A. Minor
Secretary

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 24, 2012

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 Michael H. Janowiak. as Director for a term expiring in 2017;

FOR a Proposal to amend the 2009 Stock Incentive Plan to increase the number of common shares subject to the plan by 600,000;

FOR a Proposal to amend the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan to increase the number of common shares subject to the plan by 50,000; and

FOR the ratification of the appointment of Grant Thornton LLP as independent auditors of Sonic for the fiscal year ending September 30, 2012.

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 January 31, 2012.

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, 2012 (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 3,852,480 shares of Common Stock, held by approximately 6,300 stockholders, of which approximately 5,900 were held in street name.

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. 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, such shares will also 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. Therefore, the director who receives the most votes will be elected. Neither an abstention nor a withheld vote will affect the outcome of the election. The amendment of the 2009 Stock Incentive Plan and the amendment of the Sonic Foundry Non-Employee Amended Directors Stock Option Plan require the affirmative vote of the holders of a majority of shares entitled to vote at the Annual Meeting. If you abstain from voting on either of these proposals, it will have the same effect as a vote against the proposal. The ratification of the appointment of Grant Thornton LLP requires the affirmative vote of the holders of a majority of the votes cast at the Annual Meeting. If you abstain from voting on this proposal, it will have no effect on the outcome of such proposal.

The New York Stock Exchange ("NYSE") has rules that govern brokers who have record ownership of listed company stock held in brokerage accounts for their clients who beneficially own the shares. Under these rules, brokers who do not receive voting instructions from their clients have the discretion to vote uninstructed shares on certain discretionary matters but do not have discretion to vote uninstructed shares as to certain other non-discretionary matters. A broker may return a proxy card on behalf of a beneficial owner from whom the broker has not received instructions that casts a vote with regard to discretionary matters but expressly states that the broker is not voting as to non-discretionary matters. The broker's inability to vote with respect to the non-discretionary matters with respect to which the broker has not received instructions from the beneficial owner is referred to as a "broker non-vote". Under current NYSE interpretations, the proposal to ratify the appointment of Grant Thornton, LLP as our independent auditor is considered a discretionary matter, and the proposals to amend the 2009 Stock Incentive Plan and the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan are consider non-discretionary matters. Shares entitled to vote on the proposals to amend the 2009 Stock Incentive Plan and the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan, respectively, which are the subject of a broker non-vote will be treated as not present at the meeting for the purpose of determining whether a majority of the shares entitled to vote has been obtained and therefore will not count in the vote.

DATE, TIME AND PLACE OF ANNUAL MEETING

The Annual Meeting will be held on March 7, 2012 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 be less than three or more than twelve. Our currently authorized number of directors is six. The seat on the Board of Directors currently held by Michael H. Janowiak is designated as a Class IV Board seat, with term expiring as of the Annual Meeting. The Board of Directors has nominated Michael H. Janowiak as a Class IV Director for election at the Annual Meeting.

If elected at the Annual Meeting, Mr. Janowiak would serve until the 2017 Annual Meeting and until his successor is elected and qualified or until his earlier death, resignation or removal.

Nominee for Director for a Five-Year term expiring on the 2017 Annual Meeting

Michael H. Janowiak

Mr. Janowiak, age 48, has been a director of Sonic since April 2011 and is a Principal at Pinnacle Investments, a boutique private equity and financial consulting group. He has 26 years of experience in the information industry, with focus on education, training, research publications and trade conferences for professionals in the communications and semiconductor sectors. Mr. Janowiak was President of the International Engineering Consortium (IEC)'s online learning and publishing group, co-founder and Principal of Professional Education International (PEI), where in concert with academia and companies such as Microsoft he led product development of online training and education. He has served on the Board of Directors of Mercury Air Group from September 2002 until September 2005, the Advisory Board of the Midtown Foundation since January 2001, as Industry Advisor to the Illinois Institute of Technology since January 1999, as the Subsidiary Director of CIB Marine Bancshares since November 2001, as member of Liquio Corporation since August 2002, and as member of the Advisory Board of Idynta Systems since December 2001. Janowiak is also co-founder and president of HRDRive, Inc., which is the North American subsidiary of SMR technologies, a publicly-traded, human resources software company based in Kuala Lampur, Malaysia and Chennai, India. Mr. Janowiak attended the University of Arizona's Business School and the Stanford University Executive Program.

The members of the Board of Directors unanimously recommend a vote FOR the election of Mr. Janowiak as Class IV Director.

DIRECTORS CONTINUING IN OFFICE

Gary R. Weis **Term Expires in 2013**

Mr. Weis, age 64, has been Chief Executive Officer since March 2011, Chief Technology Officer since September 2011 and a Director of Sonic since February 2004. Prior to joining Sonic, he served as 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 76, 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 was a Director (trustee) of the Columbia Acorn Trust, and its predecessors from 1972 to December 2010 (where he was a member of the Committee on Investment Performance and past chair, a member and past chair of the Audit Committee and a member of the Compliance Committee); a Director (trustee) of the Wanger Advisors Trust from 2005 to December 2010; 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; 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 71, 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.

Mark D. Burish **Term Expires in 2015**

Mr. Burish, age 58, 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.

Frederick H. Kopko, Jr. **Term Expires in 2016**

Frederick H. Kopko, age 56, has been Sonic Foundry's 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. Mr. Kopko practices in the area of corporate law. He is the Managing Director, Neltjeberg Bay Enterprises LLC, a merchant banking and business consulting firm and 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.

When considering whether the Board of Directors and nominees thereto have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Board of Directors focused primarily on the information discussed in each of the Board members' biographical information set forth on pages three and four. Each of the Company's directors possesses high ethical standards, acts with integrity and exercises careful, mature judgment. Each is committed to employing his skills and abilities to aid the long-term interests of the stakeholders of the Company. In addition, each of our directors has exhibited judgment and skill, and has either been actively involved with the Company for a considerable period of time or has experience with other organizations of comparable or greater size. In particular, Mr. Kopko has had extensive experience with companies comparable in size to Sonic Foundry, including currently serving as a director of Mercury Air Group, Inc. and fills a valuable need with experience in securities and other business law. Mr. Weis has had experience in both developing and established companies, having served as a CEO and Director of Cometa Networks and in several positions at AT&T, including Senior Vice President of Global Services. Mr. Kleinman has significant experience serving on boards of directors of various companies, has significant experience in finance and strategic management through his employment with the Chicago Booth School of Business at the University of Chicago where he also obtained valuable market insight to the Company's largest customer base. Mr. Peercy shares that same market expertise through serving the University of Wisconsin in his role as dean of the engineering school and also has significant business and technical experience obtained at positions including his role as director of Microelectronics and Photonics at Sandia National Laboratories and through his role as president of SEMI/SEMATECH. Mr. Burish brings additional valuable legal experience to the Board as well as experience obtained through founding multiple companies. Mr. Janowiak brings valuable experience with his deep connections to the on-line education industry, and with his previous involvement on the boards of public companies.

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 that, 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 Mark D. Burish, Michael H. Janowiak, David C. Kleinman and Paul S. Peercy 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 new 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 new Related Person Transactions in the fiscal year ended September 30, 2011 ("Fiscal 2011").

Board Leadership Structure and Role in Risk Oversight

In fiscal 2011 the Company separated the positions of Chairman of the Board and Chief Executive Officer. Mark D. Burish serves as Non-Executive Chairman of the Board and Gary R. Weis serves as our Chief Executive Officer and Chief Technical Officer. The Company believes that separating the positions provides an appropriate leadership structure.

Our business and affairs are managed under the direction of our board, which is the Company's ultimate decision-making body, except with respect to those matters reserved to our stockholders. Our Board's key mission is to maximize long-term stockholder value. Our Board establishes our overall corporate policies, selects and evaluates our executive management team (which is charged with the conduct of our business), and acts as an advisor and counselor to executive management. Our board also oversees our business strategy and planning, as well as the performance of management in executing its business strategy and assessing and managing risks.

What is the Board's role in risk oversight?

The board takes an active role in monitoring and assessing the Company's risks, which include risks associated with operations, credit, financing and capital investments. Management is responsible for the Company's day-to-day risk management activities and our board's role is to engage in informed risk oversight. Management, through its disclosure committee, compiles an annual ranking of risks to which the Company could be subjected and reviews the results of this risk assessment with the audit committee. Any significant risks are then reviewed by the board and assigned for oversight. In fulfilling this oversight role, our board focuses on understanding the nature of our enterprise risks, including our operations and strategic direction, as well as the adequacy of our risk management process and overall risk management system. There are a number of ways our board performs this function, including the following:

- at its regularly scheduled meetings, the board receives management updates on our business operations, financial results and strategy and discusses risks related to the business;
- the audit committee assists the board in its oversight of risk management by discussing with management, particularly, the Chief Financial Officer, our guidelines and policies regarding financial and enterprise risk management and risk appetite, including major risk exposures, and the steps management has taken to monitor and control such exposures; and
- through management updates and committee reports, the board monitors our risk management activities, including the annual risk assessment process, risks relating to our compensation programs, and financial and operational risks being managed by the Company.

The compensation committee also has oversight responsibility for risks and exposures related to employee compensation programs and management succession planning, and assesses whether the organization's compensation practices encourage risk taking that would have a material adverse effect on the Company. The committee periodically reviews the structure and elements of our compensation programs and its policies and practices that manage or mitigate such risk, including the balance of short-term and long-term incentives, use of multiple performance measures, and a multi-year vesting schedule for long-term incentives. Based on these reviews, the committee believes our compensation programs do not encourage excessive risk taking.

Board Structure and Meetings

The Board met six times during Fiscal 2011. 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 2011.
The Board of Directors has three standing committees, the Audit Committee, the Executive Compensation Committee and the Nominations 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"). Members of the Audit Committee are Messrs. Kleinman (chair), Burish, Peercy (until his resignation effective January 23, 2012) and Janowiak (effective January 23, 2012). 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 2011. 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 Chicago Booth School of Business at the University of Chicago, and due to his current and past service as a director on numerous company boards, and membership on numerous audit committees, including past or present chair, 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), Burish, Janowiak (effective January 23, 2012) 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 four times in Fiscal 2011. A copy of the charter of the Compensation Committee is available on Sonic's website.

The Nominations Committee consists of Messrs. Peercy (chair), Burish, Janowiak 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. Mr. Janowiak joined the Nominations Committee following the Committee's recommendation to the Board that he be nominated for election at the Annual Meeting. 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. In recommending candidates for election to the Board of Directors, the Nominations Committee reviews each candidate's qualifications, including whether a candidate possesses any of the specific qualities and skills desirable in certain members of the Board of Directors. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates as appropriate. Generally the Nominations Committee will consider various criteria in considering whether to make a recommendation. These criteria include expectations that directors have substantial accomplishments in their professional backgrounds and are able to make independent, analytical inquiries and exhibit practical wisdom and mature judgment. Director candidates should possess the highest personal and professional ethics, integrity and values, be committee to promoting the long-term interest of our stockholders and be able and willing to devote the necessary time to carrying out their duties and responsibilities as members of the Board. While the Board of Directors has not adopted a policy regarding diversity, we also believe our directors should come from diverse backgrounds and experience bases in order to promote the representation of diverse views on the Board of Directors. 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 2013 Annual Meeting of Stockholders, the nomination must be delivered or mailed to and received by Sonic's Secretary between November 8, 2012 and December 8, 2012 (or, if the 2013 annual meeting is advanced by more than 30 days or delayed by more than 60 days from March 7, 2013, 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 consisted of Messrs. Weis (chair) and Kleinman. 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 was disbanded upon the appointment of Mr. Weis as Chief Executive Officer on March 31, 2011.

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 Mr. Kleinman, who received $2,000 per Audit Committee meeting attended. Effective January 23, 2012, Mr. Kleinman will receive $1,000 per Audit Committee meeting attended, an Audit Committee annual retainer of $8,000 and a Compensation Committee annual retainer of $3,000. In addition, the chairman of our Board receives an annual retainer of $35,000 as compensation for his services as chairman. The former chair of our Operations Analysis Committee, Mr. Weis, received a retainer of $12,000 per year and Mr. Kleinman received an annual retainer of $6,000 as compensation as a member of the Operations Analysis Committee. The retainer paid to Mr. Kleinman as a member of the Operations Analysis Committee was prorated to coincide with the termination of the Operations Analysis Committee and the retainers paid to Mr. Weis as Board and Operations Analysis Committee compensation were prorated to coincide with the period of time ending upon his appointment as Chief Executive Officer. The cash compensation paid to the five non- employee directors combined in Fiscal 2011 was $184,500. 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 Amended 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, on November 3, 2008, 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, 2011.

Name (a)	Fees Earned Or Paid In Cash ($)(1) (b)	Stock Awards ($) (c)	Option Awards ($)(2) (d)	Non-Equity Incentive Plan Compen-sation ($) (e)	Change in Pension Value and Non-qualified Deferred Compen-sation Earnings ($) (f)	All Other Compensation ($) (g)	Total ($) (h)
Mark D. Burish	39,000	—	12,380	—	—	—	51,380
Michael H. Janowiak	19,833	—	11,160	—	—	—	30,993
David C. Kleinman	45,500	—	15,475	—	—	—	60,975
Frederick H. Kopko	29,000	—	12,380	—	—	—	41,380
Paul S. Peercy	37,000	—	12,380	—	—	—	49,380
Gary R. Weis	14,167	—	12,380	—	—	—	26,547

(1) The amount reported in column (b) is the total of retainer fees and meeting attendance fees. On October 6, 2011 the Board approved an additional annual retainer amount of $35,000 for Mr. Burish in connection with his position as non-executive Chairman of the Board.

(2) The amount reported in column (d) is the aggregate grant date fair value of options granted during the fiscal year ended September 30, 2011 in accordance with FASB ASC Topic 718. Each director received an option award of 2,000 shares on March 3, 2011 at an exercise price of $14.83 with a grant date fair value of $12,380. In addition, Mr. Kleinman received a grant of 500 shares on March 3, 2011 at an exercise price of $14.83 with a grant date fair value of $3,095 in connection with his position as chair of the Audit Committee. Mr. Janowiak received a grant of 2,000 shares on April 14, 2011 upon his appointment to the board at an exercise price of $13.60 per share with a grant date fair value of $11,160.

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.

Gary R. Weis serves as both our Chief Executive and Chief Technology Officer. (See " Directors Continuing in Office ".)

Kenneth A. Minor, age 49, 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 aftermarket 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 40, 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, 2012, 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, 2012, 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		
Wealth Trust Axiom LLC (3) 4 Radnor Corp Center, suite 520 Radnor PA 19087	297,677	7.8%
Andrew D. Burish(4) 8020 Excelsior Drive Madison, WI, 53717	192,000	5.0
Mark D. Burish(5) 33 East Main St. Madison, WI 53703	184,526	4.8
Rimas P. Buinevicius(6)	172,245	4.5
Gary R. Weis(7)	64,400	1.7
Kenneth A. Minor(8)	54,149	1.4
Frederick H. Kopko, Jr.(9) 20 North Wacker Drive Chicago, IL 60606	40,627	1.1
Robert M. Lipps(10)	35,781	*
David C. Kleinman(11) 1101 East 58th Street Chicago, IL 60637	30,000	*
Paul S. Peercy(12) 1415 Engineering Dr Madison, WI 53706	18,040	*
Michael H. Janowiak(13) 6688 Joliet Road Countryside, IL 60525	0	*
All current Executive Officers and Directors as a Group (8 persons)(14)	427,523	10.7%

* less than 1%

(1) Sonic believes that the persons named in the table above, based upon information furnished by such persons, except as set forth in note (3), have sole voting and dispositive power with respect to the number of shares indicated as beneficially owned by them.

(2) Applicable percentages are based on 3,852,480 shares outstanding, adjusted as required by rules promulgated by the Securities and Exchange Commission.

(3) Information is based on Schedule 13G filed on May 31, 2011 by Albert C. Matt, President of Wealth Trust Axiom LLC. Based on such information, Wealth Trust Axiom LLC has sole dispositive power but not sole voting power, with respect to such shares.
(4) Information is based on Schedule 13G filed on December 5, 2011
(5) Includes 4,000 shares subject to Presently Exercisable Options.
(6) Includes 22,000 shares subject to Presently Exercisable Options. Also includes 15,205 shares owned by Cleopatra Buinevicius for which Mr. Buinevicius has power of attorney to vote and/or dispose of such shares and 800 shares owned by Erik Buinevicius for which Mr. Buinevicius has power of attorney to vote and/or dispose of such shares. Ms. Cleopatra Buinevicius is the mother of Mr. Buinevicius and Mr. Erik Buinevicius is the son of Mr. Buinevicius. Mr. Buinevicius disclaims beneficial ownership of such shares. Mr. Buinevicius resigned as Chief Executive Officer on March 31, 2011.
(7) Includes 23,000 shares subject to Presently Exercisable Options.
(8) Consists of 37,000 shares subject to Presently Exercisable Options.
(9) Includes 12,000 shares subject to Presently Exercisable Options.
(10) Includes 35,706 shares subject to Presently Exercisable Options.
(11) Includes 24,000 shares subject to Presently Exercisable Options.
(12) Includes 18,000 shares subject to Presently Exercisable Options.
(13) Mr. Janowiak was granted 2,000 options upon his appointment to the Board in April 2011 which are not Presently Exercisable.
(14) Includes an aggregate of 153,706 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 and Executive Vice President of Sales as the “executive officers.”

The Executive 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 increasing 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 established performance metrics for each of its Named Executive Officers in fiscal 2011 designed to match Company performance to the amount of incentive compensation paid to such officers following completion of the fiscal year.

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 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 15 publicly-traded technology companies with annual revenues ranging from approximately $10 million to just over $100 million; market capitalization of $20 million to just over $100 million and 250 employees or fewer. The following companies comprised the peer group for the study: MakeMusic, Inc., Majesco Entertainment, XATA Corporation, Bsquare Corporation, Unify Corporation, Versant Corporation, Simulations Plus, Adept Technology, SoundBite Communications, Procera Networks, GlobalSCAPE, Broadvision, Bitstream, Evolving Systems and GSE Systems. 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 Towers Watson Data Services dated April 1, 2010 in various size and industry stratifications similar to that of Sonic.

The second source of compensation data came from a peer group of seventeen 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 $20 million and $40 million, had fewer than 250 employees and had revenues between $10 million and $80 million.

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.

The Committee considered base wage changes for Mr. Weis at a meeting of the Committee held on September 28, 2011 and Messrs. Minor and Lipps at a meeting of the Committee held on October 24, 2011. Accordingly, base compensation for Mr. Weis was increased from $344,000 to $378,400, base pay for Mr. Minor was increased from $248,200 to $255,646 and base compensation for Mr. Lipps was increased from $190,550 to $196,267. 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.

Annual Performance-Based Variable Compensation

The performance-based variable compensation reported for each executive officer represents compensation that was earned based on fiscal 2011 performance. The following describes the methodologies used by the Compensation Committee to determine the final annual performance-based variable compensation earned by each executive officer:

Selection of Performance Metrics. For fiscal 2011, the Compensation Committee designed a short-term incentive program ("STIP") driven by three performance measures that it determined were appropriate to drive desired business behavior for the Company and would correlate positively with total shareholder return. These measures were the Company's results with respect to (1) customer billings, (2) pro forma earnings, and (3) customer satisfaction. Messrs. Weis, Minor and other Non-Executive officers were included in the plan. Mr. Lipps' short term incentive plan was based solely on the level of customer billings achieved.

Establishment of Incentive Goals and Payout Approach. The Compensation Committee designed the relationship between pay and performance to ensure that desired performance would be rewarded with material payouts. Similarly, performance that did not meet the goals would reduce the performance-based variable compensation payout to as low as zero. In setting the performance levels, the Compensation Committee strived to establish challenging but achievable goals. The factors considered by the Compensation Committee in assessing the challenge inherent in the goals included:

- Management's internal operating plan; and
- Customer satisfaction.

Payout Based on Performance Against Goals. For fiscal 2011 the Company's performance, as evaluated by the Compensation Committee, lead to the determination that 66% of the STIP performance metrics were achieved and therefore 66% of the target bonus payouts were made under the STIP compensation plan. The STIP earned by Mr. Weis was $74,923 and was $49,144 for Mr. Minor. Total incentive paid to Mr. Lipps during fiscal 2011 was $101,248.

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 those of 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"). All but the 2009 Stock Incentive Plan are now terminated.

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 September 28, 2011 the Committee awarded Mr. Weis an option grant to purchase 50,000 shares of common stock effective September 30, 2011 with the strike price equal to the closing price of Sonic's stock on that date, which was $8.68. On October 24, 2011, the Committee awarded Messrs. Minor and Lipps options to purchase 27,500 shares of common stock each effective immediately, with the strike price equal to $9.46, which was the closing price of Sonic's stock on October 24, 2011. Each grant will vest one third each on the first, second and third anniversaries 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 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 provides 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, Mssrs. 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, Gary Weis does not remain as Chief Executive Officer 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.

Effective March 31, 2011, the Company entered into an employment agreement with Mr. Weis as Chief Executive Officer. The employment agreement was to continue through April 1, 2012 or until earlier terminated pursuant to the terms thereof. Pursuant to the terms of the employment agreement, Mr. Weis received an annual minimum base salary of $344,000 per year subject to increase at the discretion of the Board. Mr. Weis was also entitled to receive a performance bonus at the discretion of the Board.

Effective September 30, 2011, the Company entered into an amended and restated employment agreement with Mr. Weis. Pursuant to the terms of the amended and restated employment agreement, Mr. Weis will receive an annual minimum base salary of $378,400 per year subject to increase at the discretion of the Board. Mr. Weis may also receive a performance bonus at the discretion of the Board. Mr. Weis in addition will assume duties as are customarily performed by a Chief Technology Officer.

The amended and restated employment agreement will continue in effect until terminated as set forth therein. In the event Mr. Weis's employment is terminated without cause, as defined in the amended and restated employment agreement, or in the event his employment is constructively terminated, Mr. Weis shall be entitled to receive, in equal bi-weekly installments over a one-year period, compensation equal to one and five hundredths (1.05) multiplied by the highest cash compensation paid to Mr. Weis in any of the last three years immediately prior to his termination. In the event of a Change of Control, as defined in the amended and restated employment agreement, Mr. Weis is entitled to terminate the agreement within one year following such Change of Control, in which event he shall be entitled to receive, in a lump sum payable within thirty days of such termination, compensation equal to two and one-tenth (2.1) multiplied by the highest cash compensation paid to Mr. Weis in any of the last three fiscal years immediately prior to his termination. In any of the above events, (i) all of Mr. Weis's unvested stock options and stock grants shall vest immediately upon termination, and (ii) Mr. Weis shall receive health insurance continuation as required by COBRA, salary accrued to the date of termination, and any accrued vacation pay. Mr. Weis has further agreed not to disclose the Company's proprietary information, and, until one year following the termination of his employment agreement, not to compete with the Company or solicit the Company's employees. Such non-compete clause may not be enforceable, or may be only partially enforceable, in state courts of relevant jurisdiction.

For illustrative purposes, if Sonic terminated the employment of Mr. Weis (not for cause) on September 30, 2011, Sonic would be obligated to pay $201,000, representing 1.05 times the cash compensation paid Mr. Weis from the date of his appointment as Chief Executive Officer on March 31, 2011 and $402,000 if Mr. Weis elected to terminate his employment on September 30, 2011, following a change of control as defined in the employment agreement. If Sonic terminated Messrs. Minor and Lipps on September 30, 2011, (not for cause), or if Messrs. Minor and Lipps elected to terminate their employment following a demotion or alteration of duties on September 30, 2011, and a change of control as defined in the employment agreements had occurred, Sonic would be obligated to pay $264,000 and $306,000, respectively. In addition, any non-vested rights of Messrs. Weis, Minor and Lipps under the Employee Plans, would vest as of the date of employment termination. The value of accelerated vesting of the options under these circumstances would be $185,000 for Mr. Weis; $63,000 for Mr. Minor and $66,000 for 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 2011.

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
Mark D. Burish
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, 2011.

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($)(1) (f)	Non-Equity Incentive Plan Compensation ($)(2) (g)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($) (h)	All Other Compen-sation ($)(3) (i)	Total ($) (j)
Gary R. Weis	2011	170,000	—	—	191,880	74,923	—	—	436,803
Chief Executive and	2010	—	—	—	—	—	—	—	—
Chief Technology	2009	—	—	—	—	—	—	—	—
Officer									
Rimas P. Buinevicius	2011	344,000	—	—	—	—	—	2,040	346,040
Former Chairman and	2010	344,000	—	—	18,898	—	—	1,396	364,294
Chief Executive	2009	342,471	—	—	14,772	—	—	1,766	359,009
Officer(4)									
Kenneth A. Minor	2011	247,092	—	—	98,416	49,144	—	14,041	408,693
Chief Financial Officer	2010	241,000	—	—	18,898	—	—	7,795	270,426
and Secretary	2009	239,967		—	15,660	—	—	14,799	340,972
Robert M. Lipps	2011	189,696	—	—	98,416	101,248	—	9,072	398,432
Executive Vice	2010	185,000	—	—	18,898	73,834	—	1,992	279,724
President - Sales	2009	185,000	—	—	19,376	93,552	—	8,649	306,577

(1) The option awards in column (f) represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for stock options granted during the fiscal year. The assumptions and methodology used in calculating the 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 value attributed to the awards at the date of grant 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 ASC Topic 718 value. The amount for Mr. Weis includes a grant of 2,000 options on March 3, 2011 at an exercise price of $14.72 with a fair value of $6.19 for services as a non-employee director, made prior to his appointment as Chief Executive Officer.

(2) The amounts in column (g) represent cash bonuses which were awarded for performance during the prior fiscal year based on a pre-established formula.

(3) The amount shown under column (i) for the fiscal year 2011 includes Sonic's matching contribution under our 401(k) plan of $7,637 and $9,072 for Messrs Minor and Lipps. In addition, Mr. Buinevicius received a car allowance equal to $713 per month of which the taxable personal portion of $2,040 is included in this column. Mr. Minor receives $650 per month as a car allowance of which the taxable personal portions were $6,404. Mr. Lipps receives a car allowance of $700 per month of which there was no taxable personal portion. Mr. Weis received car and housing allowances totaling $1,750 per month, of which there was no taxable personal portion. The combined housing and car allowances were increased to $2,500 per month beginning in October 2011.

(4) Mr. Buinevicius resigned as Chief Executive Officer on March 31, 2011.

Grants of Plan-Based Awards

The Following table shows the plan-based awards granted to the Named Executive Officers during fiscal 2011.

		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: Number of Securities Underlying Options	Exercise or base price of option awards	Grant Date fair Value of Stock and option awards
Name (a)	Grant Date (b)	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Threshold ($) (f)	Target ($) (g)	Maximum ($) (h)	(#) (i)	(#) (j)	($/Sh) (1) (k)	($) (2) (l)
Kenneth A. Minor	11/24/10	—	—	—	—	—	—	—	14,120	6.97	98,416
Robert M. Lipps	11/24/10	—	—	—	—	—	—	—	14,120	6.97	98,416
Gary R. Weis	3/3/11	—	—	—	—	—	—	—	2,000	6.19	12,380
	9/30/11	—	—	—	—	—	—	—	50,000	3.59	179,500

(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, 2011 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, 2011, options to purchase a total of 785,547 shares were outstanding under the plans, and options to purchase 158,883 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, 2011 held by the Named Executive Officers.

	Option Awards					Stock Awards			
Name (a)	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 Unearned 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 Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (j)
Gary R. Weis	2,000	0	None	19.40	2/9/2014				
	2,000	0		13.40	5/24/2014				
	2,000	0		12.30	5/15/2015				
	2,000	0		17.40	3/15/2016				
	2,000	0		37.60	3/15/2017				
	2,000	0		8.00	3/6/2018				
	5,000	0		5.00	11/3/2018				
	2,000	0		5.50	3/5/2019				
	2,000	0		6.90	3/4/2020				
	0	2,000		14.83	3/3/2021				
	0	50,000		8.68	9/30/2021				
Rimas P. Buinevicius	25,300	0	None	11.20	10/25/2011				
	5,000	0		14.50	11/26/2014				
	5,000	0		15.50	12/04/2017				
	6,000	0		5.00	11/03/2018				
	6,000	0		5.26	12/2/2019				
Kenneth A. Minor	6,899	0	None	11.20	10/25/2011				
	10,000	0		4.20	05/09/2013				
	5,000	0		14.50	11/26/2014				
	12,000	0		15.50	12/04/2017				
	2,000	4,000		5.26	12/2/2019				
	0	14,120		15.21	11/24/2020				
Robert M. Lipps	2,500	0	None	22.60	04/10/2016				
	750	0		37.10	12/07/2016				
	1,500	0		15.50	12/04/2017				
	2,500	0		7.50	03/10/2018				
	10,000	0		7.80	04/16/2018				
	4,000	2,000		5.30	11/10/2018				
	2,000	4,000		5.26	12/2/2019				
	0	14,120		15.21	11/24/2020				

(1) All options were granted under either our stockholder 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 2011 by the Named Executive Officers.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Rimas P. Buinevicius	84,700	244,594	—	—
Kenneth A. Minor	3,795	13,430	—	—

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)	635,835	11.70	158,883
Equity compensation plans not approved by security holders (2)	149,712	10.74	-
Total	785,547	11.52	158,883

(1) Consists of the 2009 Stock Incentive Plan, Employee Incentive Stock Option Plan and the Amended Directors Stock Option Plans. 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.

Compensation Committee Interlocks and Insider Participation

The members of the Executive Compensation Committee of Sonic's Board of Directors for fiscal 2011 were those named in the Executive Compensation Committee Report. No member of the Committee was at any time during Fiscal 2011 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 2: PROPOSAL TO AMEND THE 2009 STOCK INCENTIVE PLAN

We are asking our stockholders to approve an amendment to the 2009 Stock Incentive Plan to increase the number of shares of common stock subject to the plan by 600,000 at the Annual Meeting (in this proposal, the "Amended 2009 Plan"). On January 23, 2012, the Board approved the Amended 2009 Plan, subject to stockholder approval.

The purpose of the Amended 2009 Plan is to promote the interests of the Company and its stockholders by strengthening the Company's ability to attract and retain experienced and knowledgeable employees and to furnish additional incentives to those employees upon whose judgment, initiative and efforts the Company largely depends. The 2009 Plan provided for the grant of up to 400,000 stock options. As of September 30, 2011, the Company had granted options for 265,901 shares and had forfeitures totaling 17,834, leaving a balance of 151,933. During the quarter ended December 31, 2011, the Company granted options for 147,800 shares under the 2009 Plan and cancelled 3,400 options, leaving a balance at December 31, 2011 of 7,533. We recommend approval of the Amended 2009 Plan with an aggregate number of shares that may be subject to awards under the Amended 2009 Plan of 1,000,000.

We presently anticipate that the number of Available Shares under the Amended 2009 Plan will be sufficient for issuance of awards under our equity compensation for three years. Except with respect to the number of shares of common stock subject to equity awards, there are no material differences between the 2009 Stock Incentive Plan and the Amended 2009 Plan.

Why You Should Vote for the Amended 2009 Plan

There are a Limited Number of Options Remaining to be Granted Under the 2009 Plan

Equity awards are currently made to officers and employees exclusively from our 2009 Plan. As of December 31, 2011, we had a balance of 7,533 options remaining to be granted under our 2009 Plan. We currently grant approximately 200,000 options per year. If we do not adopt the Amended 2009 Plan we will be unable to issue a significant number of equity awards unless our stockholders approve a new stock plan. We anticipate that we will have difficulty attracting, retaining, and motivating officers and employees if we were unable to make equity awards to them. In addition, we believe that equity awards are an effective compensation vehicle because they offer significant potential value with a smaller impact on current income and cash flow. Therefore, we are asking our stockholders to approve the Amended 2009 Plan.

Equity Incentives are an Important Part of our Compensation Philosophy

Approval of the Amended 2009 Plan is critical to our ongoing effort to create stockholder value. As discussed in the Compensation Discussion and Analysis earlier in this Proxy Statement, equity-based incentives are an integral part of our compensation program. We grant stock options to substantially all of our employees. We believe we must continue to offer a competitive equity compensation plan in order to attract, retain and motivate the talent necessary to successfully grow the Company.

The Amended 2009 Plan Combines Compensation and Governance Best Practices

Some of the key features of the Amended 2009 Plan that are designed to protect our stockholders' interest and to reflect corporate governance best practices are as follows:

- *Continued broad-based eligibility for equity awards*. We grant equity awards to substantially all of our employees. By doing so, we link employee interests with stockholder interests throughout the organization and motivate our employees to act as owners of the Company.
- *Reasonable share counting provisions*. In general, when awards granted under the Amended 2009 Plan expire or are cancelled, the shares reserved for those awards will be returned to the share reserve and be available for future issuance under the Amended 2009 Plan. However, shares of common stock received from the exercise of stock options or withheld for taxes will not be returned to the share reserve.

- *Option exercise price*. Under the Amended 2009 Plan, the exercise price per share of stock options may not be less than 100% of the fair market value on the date of grant.
- *Repricing is not allowed*. Under the Amended 2009 Plan, repricing of stock options (including reduction in the exercise price of stock options or replacement of an award with cash or another award type) is prohibited without prior stockholder approval.
- *Limitations on Amendments*. The Amended 2009 Plan requires stockholder approval for material amendments to the Plan, including (i) a material increase in the benefits accrued to participants under the Plan, (ii) a material increase in the number of securities that may be issued under the Plan, (iii) a material expansion of the class of individuals eligible to participate in the Plan, or (iv) an extension to the term of the Plan.

Description of the Amended 2009 Plan

A description of the principal features of the Amended 2009 Plan is set forth below. The summary is qualified in its entirety by the detailed provisions of the Amended 2009 Plan, a copy of which is attached to this Proxy Statement as Exhibit A.

Purpose. The Amended 2009 Plan is intended to provide incentives to the Company's officers, directors, and employees by providing them with opportunities to acquire a direct proprietary interest in the operations and future success of the Company.

Effective Date. The Amended 2009 Plan will become effective on the date on which it is approved by the stockholders (the "Effective Date").

Types of Awards. The Amended 2009 Plan provides for the following types of awards: (i) incentive stock options, (ii) non-qualified stock options, (iii) restricted stock awards, (iv) restricted stock units, (v) performance stock awards, (vi) and other stock-based awards (collectively, "Awards").

Administration. Our Board, or a committee of the Board consisting of at least two members of the Board, will administer the Amended 2009 Plan. The Board may delegate responsibility for administration of the Plan to different committees, subject to any limitations the Board deems appropriate. The Board, or any two member committee of the Board (hereinafter, the "Committee"), has full authority to administer the Plan, including authority to interpret and construe any relevant provisions of the Plan, to adopt rules and regulations that it deems necessary, to determine which individuals are eligible to participate and/or receive Awards under the Plan, to determine the amount and/or number of shares subject to the Award, and to determine the terms of the Award (which need not be identical). The Committee may delegate its authority to grant Awards under the Amended 2009 Plan to one or more of the Company's executive officers to the extent permitted by applicable law, provided the grantees are not executive officers or directors of the Company.

The Committee has the power to approve the form of Award agreements, and to amend or adopt sub-plans to permit employees who reside outside the United States to participate in the Amended 2009 Plan. The Committee does not have authority under the Amended 2009 Plan to reduce the exercise or purchase price of any outstanding Award or to cancel and re-grant an outstanding Award if such action would reduce the exercise or purchase price of the Award, in either case, absent prior approval of the stockholders for such an action.

The Board has delegated administration of the 2009 Plan, and any amendments thereto, to the Executive Compensation Committee.

Stock Subject to the Amended 2009 Plan. The common stock issued or to be issued under the Amended 2009 Plan consists of authorized but unissued shares or issued shares that have been reacquired by the Company in any manner. Subject to adjustment made in connection with a recapitalization, change in control and certain other events set forth in the Amended 2009 Plan, the maximum number of shares subject to Awards which may be issued pursuant to the Amended 2009 Plan will be 1,000,000 shares of common stock. In addition, if any Award granted under the Amended 2009 Plan is not exercised or is forfeited, lapses or expires, or otherwise terminates without delivery of any common stock subject thereto, the shares subject to such Award will again be available for future grants of Awards under the Plan. The number of shares of common stock available for issuance under the Amended 2009 Plan will not be increased by any shares tendered or Awards surrendered in connection with the purchase of shares of common stock upon exercise of an option or any shares of common stock deducted or forfeited from an Award in connection with our withholding obligations.

Eligibility and Limitations on Grants. Awards under the Amended 2009 Plan may be made to employees, officers, directors and consultants of the Company or any present or future parent or subsidiary of the Company or other business venture in which the Company has a substantial interest ("Related Entities"). Awards made to non-employee directors under the Amended 2009 Plan may only be granted and administered by a committee meeting the independence requirements of the exchange on which the Company's common stock is listed.

Terms of Options. The Amended 2009 Plan permits grants of stock options intended to qualify as incentive stock options ("ISOs") under Section 422 of the Internal Revenue Code (the "Code") and stock options that do not qualify as ISOs ("non-qualified" options). Options granted under the 2009 Plan will be non-qualified options if they fail to qualify as ISOs or exceed the annual limit on ISOs. Only employees of the Company may receive ISOs. Non-qualified options may be granted to any persons eligible to receive ISOs and to directors and consultants of the Company. The exercise price of a stock option may not be less than 100% of the fair market value of the stock subject to the option on the date of grant (for an incentive stock option, 110% if the optionee is a 10% holder of our common stock). The term of option will not be longer than ten years (or, in the case of a 10% owner of our common stock, five years if the option is an ISO) and may be subject to restrictions on transfer.

Options may be exercised in whole or in part with written or electronic notice to the Company's delegate for receipt of such notice, accompanied by full payment of the exercise price for the number of shares being purchased. Subject to the discretion of the Committee, the exercise price may be paid in cash, by check, pursuant to a broker-assisted cashless exercise, by delivery of other shares of common stock, by a "net exercise arrangement", or any other form of legal consideration deemed acceptable by the Committee.

Options generally terminate ninety days after termination of an optionee's service or as set forth in the option agreement. The optionee may have longer to exercise when termination is due to disability or death. No option may be exercised beyond the expiration of its term. The ability to exercise options may be accelerated by the Committee, subject to compliance with the provisions of the Amended 2009 Plan.

Terms of Restricted Stock. The Amended 2009 Plan permits grants of restricted stock entitling recipients to acquire shares of the Company's common stock, subject to the right of the Company to require forfeiture of such shares in the event that conditions specified by the Committee in the applicable award agreement are not satisfied. Subject to the provisions of the Amended 2009 Plan, the Committee will determine the terms and conditions of any restricted stock award, including the grant date and vesting schedule for the award.

Terms of Restricted Stock Units. The Amended 2009 Plan permits awards of restricted stock units entitling recipients to acquire shares of the Company's common stock (or the cash equivalent) in the future. Subject to the provisions of the Amended 2009 Plan, the Committee will determine the terms and conditions of any restricted stock unit award, including the grant date and vesting schedule for the award.

Other Stock-Based Awards. The Amended 2009 Plan permits awards of shares of the Company's common stock, and other awards that are valued by reference to, or are otherwise based on, shares of the Company's common stock or property, including awards entitling recipients to receive shares of the Company's common stock in the future. Such awards may also be available as a form of payment in the settlement of other awards granted under the Amended 2009 Plan or as payment in lieu of compensation to which a participant is otherwise entitled. Subject to the discretion of the Committee, the awards may be paid in shares of common stock or cash. Subject to the provisions of the Amended 2009 Plan, the Committee will determine the terms and conditions of such other stock-based awards, including any purchase price that may be applicable to the award.

Performance Awards. Under the Amended 2009 Plan, certain restricted stock awards, restricted stock unit awards and other stock-based awards may be subject to the achievement of performance goals. For performance awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code, the vesting and/or delivery of shares for such awards will occur upon achievement of one or more of the following objective performance measures, as determined by the Committee in its discretion: earnings per share, return on average equity or average assets in relation to a peer group of companies designated by the Committee, earnings, earnings growth, earnings before interest, taxes and amortization (EBITA), operating income, gross or product margins, revenues, expenses, stock price, market share, reductions in non-performing assets, return on sales, assets, equity or investment, regulatory compliance, satisfactory internal or external audits, improvement of financial ratings, achievement of balance sheet or income statement objectives, net cash provided from continuing operations, stock price appreciation, total shareholder return, cost control, strategic initiatives, net operating profit after tax, pre-tax or after-tax income, cash flow, or a combination of one or more of these measures, which may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. These performance measures may be adjusted to exclude the effect of various events that may occur during the performance period, including: extraordinary items and any other unusual or non-recurring items; discontinued operations; gains or losses on the dispositions of discontinued operations; the cumulative effects of changes in accounting principles; the writedown of any asset; and charges for restructuring and rationalization programs. In addition, such performance measures:

- may vary by participant and may be different for different performance awards;
- may be particular to a participant or the department, branch, line of business, subsidiary or other unit in which the participant works and may cover such period as may be specified by the Committee; and
- shall be set by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of Section 162(m) of the Code.

Notwithstanding any other provision of the Plan, the Committee may adjust downwards, but not upwards, the cash or number of shares payable pursuant to performance awards intended to qualify as performance-based compensation under 162(m) of the Code, and the Committee may not waive the achievement of the applicable performance measures except in the case of the death or disability of the participant or a change in control of the Company.

Awards that are not intended to qualify as performance-based compensation under 162(m) of the Code may be based on these or such other performance measures as the Committee may determine.

Adjustments and Recapitalization. In the event that any change is made to the shares of common stock issuable under the Amended 2009 Plan, whether through merger, consolidation, stock split, stock dividend, extraordinary cash dividend, recapitalization, combination of shares, exchange of shares, or other similar event, then appropriate adjustments will be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the number and/or class of securities and, if applicable, price per share in effect under each outstanding Award under the Plan, and (iii) the maximum number of shares issuable to one individual in a calendar year under the Plan.

Change in Control Provisions. In the event of a change in control of the Company, outstanding Awards may be assumed, continued or substituted by the successor corporation. If the successor corporation does not assume, continue or substitute such Awards, then all Awards held by a participant, immediately prior to the effectiveness of the change in control, will become fully vested and exercisable.

Notwithstanding the foregoing, in the event of a change in control, all outstanding Awards held by the participant will, immediately prior to the effectiveness of the change in control, become vested and exercisable as to an additional number of shares equal to the number of shares that would have become vested and exercisable on the date twelve months after the effectiveness of the change in control. If the participant has been employed by the Company for less than twelve months immediately prior to the change in control, the number of vested and exercisable shares will be increased by the number of shares that would have become vested and exercisable on the date six months after the consummation of the change in control. In addition, if, within six months following the change in control, the successor corporation terminates the employment of a participant without cause, all Awards held by the participant will become fully vested and exercisable.

Under the Amended 2009 Plan, a "change in control" generally means any of the following events: (i) a person (as defined by Sections 13(d) and 14(d) of the Exchange Act, as amended) becomes the beneficial owner of securities representing 35% or more of the combined voting power of the Company's then outstanding securities; (ii) the Company's incumbent directors cease to constitute a majority of the Board; (iii) a consummated merger or consolidation of the Company with any other corporation; or (iv) the stockholders approve a plan of liquidation or dissolution or an agreement for the sale of all or substantially all of the Company's assets.

Term and Amendment of the Plan. The Amended 2009 Plan is scheduled to expire ten years from the Effective Date of the 2009 Stock Incentive Plan. The Board may amend or modify the Amended 2009 Plan in any respect to the extent the amendment or modification does not adversely affect a holder's rights under any outstanding Award without the holder's consent; however, stockholder approval is required for any amendment that (i) materially increases the benefits accrued to participants under the Plan, (ii) materially increases the number of securities which may be issued under the Plan, (iii) materially expands the class of individuals eligible to participate in the Plan, or (iv) extends the term of the Plan. In addition, certain amendments may, as determined by the Board in its discretion, require stockholder approval pursuant to applicable laws, rules or regulations, including any applicable exchange on which our common stock is listed.

Tax Withholding. Participants in the Amended 2009 Plan are responsible for the payment of any foreign, federal or state tax that we are required by law to withhold upon any exercise or vesting of an Award. Subject to the discretion of the Committee, participants may satisfy such tax obligations by delivery of shares of common stock, including shares retained from the Award creating the tax obligations, valued at their fair market value. The Company may, to the extent permitted by law, deduct such tax obligations from any payment of any kind otherwise due to the participant.

Federal Income Tax Consequences

The following is a summary of the principal U.S. federal income tax consequences to participants and the Company with respect to participation in the Amended 2009 Plan. It does not describe all federal tax consequences under the Amended 2009 Plan, nor does it discuss state, local or foreign tax consequences.

Incentive Stock Options. An optionee who is granted an incentive stock option does not recognize taxable income at the time the option is granted or upon its exercise, although the exercise is an adjustment item for alternative minimum tax purposes and may subject the optionee to the alternative minimum tax. Upon a disposition of the shares more than two years after grant of the option and more than one year after the exercise of the option, any gain or loss is treated as long-term capital gain or loss. If these holding periods are not satisfied, the optionee recognizes ordinary income at the time of disposition equal to the difference between the exercise price and the lower of (a) the fair market value of the shares at the date of the option exercise or (b) the sale price of the shares. Any gain or loss recognized on such a premature disposition of the shares in excess of the amount treated as ordinary income is treated as long-term or short-term capital gain or loss, depending on the holding period. Unless limited by Section 162(m) of the Code, we are generally entitled to a deduction in the same amount as the ordinary income recognized by the optionee.

Nonstatutory Stock Options. No taxable income is recognized by an optionee upon the grant of a nonstatutory stock option. Upon exercise, the optionee will recognize ordinary income equal to the excess of the fair market value of the purchased shares on the exercise date over the exercise price paid for those shares. Assuming we comply with Section 162(m) of the Code, we will be entitled to an income tax deduction in the tax year in which the optionee recognizes the ordinary income. When the optionee disposes of shares granted as a nonstatutory stock option, any difference between the sale price and the optionee's exercise price, to the extent not recognized as taxable income as provided above, is treated as long-term or short-term capital gain or loss, depending on the holding period.

Restricted Stock. A grantee who is awarded restricted stock will not recognize any taxable income for federal income tax purposes in the year of the award, provided that the shares of common stock are subject to restrictions (that is, the restricted stock is nontransferable and subject to a substantial risk of forfeiture). However, the grantee may elect under Section 83(b) of the Code to recognize compensation in the year of the award in an amount equal to the fair market value of the common stock on the date of the award (less the purchase price, if any), determined without regard to the restrictions. If the grantee does not make such a Section 83(b) election, the fair market value of the common stock on the date the restrictions lapse (less the purchase price, if any) will be treated as compensation income to the grantee and will be taxable in the year the restrictions lapse and dividends paid while common stock is subject to restrictions will be subject to withholding taxes. If we comply with the restrictions of Section 162(m) of the Code, we will be entitled to a tax deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

Restricted Stock Units. There are no immediate tax consequences of receiving an award of restricted stock units under the Amended 2009 Plan. A grantee who is awarded restricted stock units will be required to recognize ordinary income in an amount equal to the fair market value of shares issued to such grantee at the end of the restriction period or, if later, the payment date. If we comply with the restrictions of Section 162(m) of the Code, we will be entitled to a tax deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

Performance Awards. The award of a performance award will have no federal income tax consequences for us or the grantee. The payment of the award is taxable to a grantee as ordinary income. If we comply with the restrictions of Section 162(m) of the Code, we will be entitled to a tax deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

Section 280(G). To the extent payments that are contingent on a change in control are determined to exceed certain Code limitations, they may be subject to a 20% nondeductible excise tax and our deduction with respect to the associated compensation expense may be disallowed in whole or in part.
Section 409A. The Company intends for awards granted under the Amended 2009 Plan to comply with Section 409A of the Code.

New Plan Benefits

Because the Amended 2009 Plan will not be effective unless and until it is approved by the stockholders, no significant Awards will be granted under the 2009 Plan until approved. The participants and types of Awards under the Amended 2009 Plan are subject to the discretion of the Committee and, as a result, the benefits or amounts that will be received by any participant or groups of participants if the Amended 2009 Plan is approved are currently not determinable. As of January 26, 2012 there were three executive officers, five non-employee directors, and approximately 100 employees who were eligible to participate in the Amended 2009 Plan. As of the Record Date, the closing price per share of our common stock was $7.31.

General

The amendment of the 2009 Stock Incentive Plan requires the approval of a majority of the outstanding shares entitled to vote at the Annual Meeting.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR PROPOSAL 2, TO AMEND THE 2009 STOCK INCENTIVE PLAN.

PROPOSAL 3: PROPOSAL TO AMEND THE SONIC FOUNDRY 2008 DIRECTORS STOCK OPTION PLAN

The Board of Directors recommends amending the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan (the “2008 Plan”) by increasing the shares that may be issued pursuant to the plan by 50,000 (the “Amended Directors Stock Option Plan”).

The purpose of the Amended Directors Stock Option Plan is to promote the interests of Sonic and its stockholders by strengthening Sonic’s ability to attract and retain experienced and knowledgeable non-employee directors and to encourage them to acquire an increased proprietary interest in Sonic. The Amended Directors Stock Option Plan is intended to increase the number of shares pursuant to the plan in order to provide sufficient shares for further grants. The 2008 Plan provided for the grant of up to 50,000 stock options, of which 43,000 were granted under the plan with 7,000 available for grant.

The Amended Directors Stock Option Plan will continue to be administered by the Board of Directors. The Amended Directors Stock Option Plan will continue to provide for a grant of an option to each non-employee director 1) upon his initial appointment to the Board, 2) to each non- employee director who is reelected or who is continuing in offices as a member of the Board after the adjournment of each annual meeting and 3) in the Board’s discretion, other grants to one or more Non-Employee Directors from time to time. Each option grant pursuant to 1) or 2) above is effective to purchase 2,000 shares of Common Stock at an exercise price equal to the fair market value on the date of grant. Other option grants will be in amounts as determined by the Board.

Common Stock that may be issued under the Amended Directors Stock Option Plan pursuant to options shall not exceed in the aggregate One Hundred Thousand (100,000) shares of Common Stock. Except with respect to the number of shares of common stock subject to issuance, there are no material differences between the 2008 Plan and the Amended Directors Stock Option Plan.

Summary of the Amended Directors Stock Option Plan

The following is a summary of the material provisions of the Amended Directors Stock Option Plan. This summary is qualified in its entirety by reference to the specific provisions of the Amended Directors Stock Option Plan, the full text of which is attached to this Proxy Statement as Exhibit B.

All options granted under the Amended Directors Stock Option Plan are non- statutory — not intended to qualify under Section 422 of the Code, as amended. The federal income tax consequences are similar to those described above with respect to the grant of a non-qualified stock option.

Payment of the option exercise price may be in cash, by delivery of previously owned Common Stock, by any other legally permissible means acceptable to the Board at the time of the grant of the option (including cashless exercise, subject to applicable legal restrictions), or by a combination of such means.

If an optionee ceases to be a director before an option vests, the option will terminate, other than in the case of death, disability or resignation required as a condition of a change in control, in which case all outstanding options granted as of the date of termination shall vest and immediately become exercisable. Each option expires ten years from the date of its grant or earlier in certain circumstances such as death or disability. Options are not transferable at any time except in certain circumstances such as transfers to family members. Options that are forfeited or terminated will again be available for grant. Shares may be authorized but unissued, currently held or reacquired shares. The Board of Directors may amend, terminate or suspend the Plan at any time.

Plan Benefits

Under the 2008 Plan, each of the five non-employee directors received options to purchase 2,000 shares of Common Stock upon initial appointment to the Board and each non-employee director has received and pursuant to the Amended Directors Stock Option Plan, will continue to receive options to purchase an additional 2,000 shares of Common Stock after the adjournment of each annual stockholders meeting. However, no dollar value is assigned to the options because their exercise price is the fair market value of the common stock on the date of grant.

General

The amendment of the 2008 Plan requires the approval of a majority of the outstanding shares entitled to vote at the Annual Meeting.

The Board of Directors unanimously recommends a vote FOR Proposal 3, amending the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan.

PROPOSAL FOUR: 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, 2012, 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 at the Annual Meeting.

Recommendation of Board of Directors

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR PROPOSAL 4 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 4, the Board has selected GT to serve as our independent auditors for the fiscal year ending September 30, 2011.

Audit services performed by GT for Fiscal 2011 and 2010 consisted of the examination of our financial statements, review of fiscal quarter results, and 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 2010 and 2009 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 2011 and 2010 Audit Firm Fee Summary

During fiscal years 2011 and 2010, we retained GT to provide services in the following categories and amounts:

	Years Ended September 30,	
	2011	2010
Audit Fees	$143,900	$126,260
Audit Related	11,350	11,440
Tax Fees	26,081	15,452
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 2011.

Mssrs. Kleinman, Burish 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.

[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.

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".

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 2011, 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, 2011, for filing with the SEC.
Respectfully submitted,

AUDIT COMMITTEE
David C. Kleinman, Chair
Mark D. Burish
Paul S. Peercy

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 4,000 shares of Common Stock at exercise prices ranging from $17.40 to $37.60 and was granted options to purchase 8,000 shares of Common Stock at exercise prices ranging from $5.50 to $14.83 pursuant to the 2008 Non-Employee Directors Plan. During fiscal 2011, 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 Mr. Burish, who inadvertently filed one late Form 4 report.

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 who 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 2013 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 2013 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 26, 2012). 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 2013 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 8, 2012 and December 8, 2012. However, in the event that the annual meeting is advanced by more than 30 days or delayed by more than 60 days from March 7, 2013, 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 2013 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 10, 2012) and (ii) any other proposal, if the 2013 proxy statement briefly describes the matter and how management's proxy holders intend to vote on it, and if the stockholder does not comply with the requirements of Rule 14a-4(c)(2) under the Securities Exchange Act of 1934. Notwithstanding the above, all stockholder proposals must comply with the provisions of Sonic's bylaws.

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, 2011 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, 2011, 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,

January 24, 2012

Kenneth A. Minor, Secretary

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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, 2011

OR

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

Commission File Number 000-30407

SONIC FOUNDRY, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	**39-1783372**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
222 W. Washington Ave, Madison, WI 53703	**(608) 443-1600**
(Address of principal executive offices)	**(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 $51,399,000.

The number of shares outstanding of the registrant's common equity was 3,839,648 as of November 17, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2011 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, 2012.

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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.

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 our 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
- Mediasite Events for turnkey meeting, conference and event webcasting services based on the Mediasite platform
- Mediasite Services for hosting, installation, training and custom development
- Mediasite Customer Assurance for annual hardware and software maintenance and technical support

Today, over 2,300 customers using more than 5,500 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.

Challenges We Address

Every organization faces a fundamental need to communicate information efficiently to individuals who need it. Universities and colleges need to connect instructors with students for advanced learning. Corporations strive for successful communication and collaboration among 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, conferences and events 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 conference, 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
- Extending the life and value of conferences, meetings and events
- 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
- Enabling individuals to attend professional conferences in light of travel bans and budget cuts

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
- Mediasite Events for turnkey meeting, conference and event webcasting services based on the Mediasite platform
- Mediasite Services for hosting, installation, training and custom development
- Mediasite Customer Assurance for annual hardware and software maintenance and technical support

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 streamline the capture and delivery of any presenters' video and any presentation images shown from any presentation source such as a laptop, tablet, document camera, whiteboard or even medical instrumentation. The result is high resolution, interactive presentations that can be immediately watched via the web on a computer or mobile device – live or on-demand. With the industry's simplest workflow, Mediasite Recorders eliminate 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

Mediasite EX Server 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
- Customize and brand their presentation content
- Automatically create online content catalogs without web development or integration skills
- Save valuable time, improve content retention and enhance productivity by empowering viewers with search capabilities that pinpoint key words anywhere in their presentation library and play back relevant content where search terms occur
- Secure presentations and Mediasite system access for authorized users
- Incorporate audience interactivity through polls and Q&A
- 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 Mediasite Recorders for increased operator efficiency
- Integrate Mediasite content into other course/learning/content management systems, portals, blogs or online communities
- Extend their rich media content to users with vision or hearing impairments through support for closed captions and screen readers, while also meeting federal or state accessibility requirements
- 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

Mediasite Events 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
- Provides 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

Mediasite 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. Mediasite 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 downloads, documentation, knowledge base articles, tutorials, online training and technical resources at any time.

Nearly all our customers purchase a Customer Assurance plan when they purchase Mediasite Recorders or Servers.

What Sets Mediasite Apart?

- **Market Leadership –** 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 three consecutive Market Share Leadership Awards for Lecture Capture in 2010, 2009 and 2007 (no report was published in 2008). The Frost & Sullivan Award for Market Share Leadership is presented to the company that demonstrates excellence in capturing the highest market share within its industry and recognizes the company's leadership position in terms of revenues or units. Wainhouse Research also recognizes Mediasite as a streaming and lecture capture market leader for distance education and e-learning 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 Foundry ranks highest from the perspective of product offering depth and ranks among the leaders in its ability to execute. Mediasite has also been voted the Best Webcasting Platform in the last four consecutive *Streaming Media* Readers' Choice Awards (2007-present), and named 2011 Best Video Capture, Production and Publishing Solution by *eLearning! Magazine*.
- **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. More than 2,300 customers around the world trust 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. Many other webcast solutions focus on PowerPoint as the predominant or only source of content and may not support video. We understand that learning materials and supporting visuals come in many different forms, and Mediasite Recorders' flexible capture options support input from any laptop , tablet, whiteboard, document camera, medical instrumentation and more. 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 Microsoft® Silverlight®-enabled and HTML5-enabled Players which provide 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 empowers users with powerful keyword search to pinpoint and play back content of interest within a Mediasite presentation, Mediasite Catalog or an entire Mediasite library.
- **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 support –** 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) 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 year-round 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
- Special events: commencement, guest speakers, sporting events
- Faculty training and development
- Research and collaboration: faculty document and present findings
- Recruitment and orientation: campus tours, financial aid instructions 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
- Enables their institution to remain competitive
  - Allows quick development and delivery of cost-effective online programs
  - Supports higher enrollment and/or tuition without new classrooms
  - 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
  - Supports time-shifting, letting faculty travel to conferences or present findings without missing class
- Boosts campus outreach
  - Bolsters recruitment efforts
  - Increases awareness and reach of campus events
  - Enhances alumni relations

Given the technology pedigree of today's college students, this move to online learning makes perfect sense as these students have never known a world without personal computers, mobile devices 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 our academic customer base. We are now experiencing heightened market demand for lecture capture within undergraduate and community college programs as well.

According to the Sloan Consortium report, *Class Differences: Online Education in the United States, 2010*, online enrollments the past several years have been growing considerably. The 21 percent growth rate for online enrollments far exceeds the 2 percent growth of the overall higher education student population. The survey of more than 2,500 colleges and universities nationwide finds more than one in four students – approximately 5.6 million – were enrolled in at least one online course in the fall 2009 term, one million more than in the fall 2008 term. Over three-quarters of survey respondents from public institutions report that online learning is as good as or better than face-to-face instruction Three-quarters of institutions also report that the economic downturn has increased demand for existing online courses and programs. Almost two-thirds of for-profit institutions now say that online learning is a critical part of their long term strategy, with 60 percent of academic leaders reporting there is increasing competition for online students.

Similarly, the National Center for Education Statistics released a Stats in Brief report from the U. S. Department of Education, *Learning at a Distance: Undergraduate Enrollment in Distance Education Courses and Degree Programs* (October 2011), showing that the percentage of undergraduates enrolled in at least one online class increased from 8 percent to 20 percent between 2000 and 2008.

Community colleges, specifically, have significantly increased their number of blended or hybrid and web-enhanced courses. The Instructional Technology Council's "2010 Distance Education Survey Results: *Trends in eLearning: Tracking the Impact of eLearning at Community Colleges* (May 2011)" reported a nine percent increase in distance education enrollments, higher than the seven percent increase in overall higher education student enrollment. Over

20 percent of community colleges offer blended/hybrid courses – up 15 percent from last year. Factors cited for contributing to the increase in elearning enrollments include downturn in the economy (37 percent), typical growth for distance education classes (39 percent) and new enrollment initiatives (12 percent). The study also showed that overall, 77 percent of community colleges offer audio/video streaming, and another 9 percent plan to offer in the next year.

According to The Campus Computing Project's *Campus Computing2010: The 21st National Survey of Computing and Information Technology in American Higher Education*, sixty percent of all universities agree/strongly agree that "lecture capture is an important part of our campus plan for developing and delivering instructional content."

In their *2010 21st Century Campus Report* (June 2010), CDW-G reports multimedia content streaming is one of the top five technologies identified by students, faculty and staff as extremely important to today's college students. According to student responses, 44 percent of high school students want to use recorded class lectures in college, and of IT professionals surveyed, 61 percent of institutions currently offer virtual learning opportunities.

Analysts predict the lecture capture market will more than triple over the next six years. Frost & Sullivan analysts estimate lecture capture revenues will reach over $192 million by 2016, exhibiting a nearly 22 percent compound annual growth rate (CAGR) for the six-year period (*World Lecture Capture Solutions Markets* report, 2010). Wainhouse Research predicts in *"Differentiating Higher Ed and Primary/Secondary Applications: Why Key Technologies Vary in Acceptance and Adoption"* (September 2010), "lecture capture is now and will remain one of the most deployed new classroom technologies in higher education over the next three to five year period." They report 29 percent of higher education survey respondents indicate they are using "some" lecture capture, with 42 percent at "mainstream" usage.

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. This year, the University of Maryland-Baltimore Dental School announced new independent survey results demonstrating the positive impact of Mediasite on student outcomes. A Mediasite campus since 2006, the school compiled several years of student surveys after amassing five-thousand captures with half a million views. The latest results come from feedback by 118 graduating seniors and are available in the webinar, "Evaluating Lecture Capture's Impact on Student Outcomes" which can be viewed athttp://sofo.com/ada52.

Student survey results reveal:

- 97% felt Mediasite made it easier to learn
- 73% used a combination of in-class lectures and Mediasite to enhance their studies
- 98% indicated they watched most or all of the lectures online
- 40% said Mediasite helped them prepare for the boards
- 50% agreed or strongly agreed that lecture capture attracted them to the Dental School
- 74% would recommend the dental school to potential students because of Mediasite
- 95% expressed satisfaction with Mediasite

During the spring semester of 2008, the University of New Mexico surveyed almost a thousand undergraduate and distance education students about their Mediasite usage and found:

- 90 percent of respondents “agreed” or “strongly agreed” that Mediasite should be available for other courses
- 62 percent of students used Mediasite at least half of the time or more to review or watch lectures
- 77 percent had “good” or “excellent” experiences using Mediasite, and 77 percent of respondents “agreed” or “strongly agreed” that Mediasite was easy to use
- 85 percent described the quality of the Mediasite recordings as “good” or “excellent”
- 42 percent used Mediasite to review lectures due to absence, but several students noted they never missed class
- 54 percent used Mediasite to review for quizzes and exams “often” or “always” with 30 percent “always” using Mediasite to review
- 67 percent responded they “agreed” or “strongly agreed” that Mediasite improved their overall learning of course content
- 56 percent responded they “agreed” or “strongly agreed” that Mediasite improved their overall grade in the course

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 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 large lecture halls, auditoriums 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. Similarly, video content management platforms are starting to emerge as repositories for campus’ media-centric content. These platforms provide additional opportunities through which to make Mediasite content accessible to faculty, staff or students.

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: user group, sales and annual meetings

In health-related enterprises it is used for:
- Education: continuing medical education, 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 audiovisual specialists in information technology 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 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."

In its 2011 report, *World Enterprise Video Webcasting Solutions Market*, industry analyst Frost & Sullivan, cites several drivers contributing to the growth of the worldwide enterprise video webcasting market:

- Video webcasting allows enterprises to reduce costs and enhance communication
- Video webcasting is increasingly cheaper to deploy
- Video webcasting integrated into the enterprise portal helps enhance shelf life of video content
- Maturing capabilities of enterprise IT departments help drive buy-in for video webcasting deployments
- Interactive functionality including tools for reporting and analytics enhance the value proposition of enterprise video webcasting

The technology market for enterprise webcasting solutions that support many e-learning and business communications initiatives is growing as well. In Wainhouse Research's, *Enterprise Streaming Solutions Market Size and Forecast* (June 2011), 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 $503 million in 2011. This market will expand to an estimated $1.424 billion by 2015 with Weinstein projecting a CAGR for the period around 29 percent.

In the September 2011 *Enterprise Webcasting Services Market Size and Forecast* also by Wainhouse Research, Weinstein estimates the 2011 market for hosted streaming application platforms supporting live virtual events (specifically excluding web conferencing offerings and consumer-focused video streaming services) to be $358 million. By 2015, Weinstein predicts the market will expand to $925 million, exhibiting a 28 percent CAGR over the four-year period, driven by increasing awareness of webcasting as a business application and growing acceptance of SaaS/hosted webcasting offerings.

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. Today, leading universities use Mediasite for lecture capture and corporations webcast training, executive communications and events. 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:

- Supporting ubiquitous content playback on all popular mobile devices.
- 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 solutions that economically scale across entire organizations, allowing anyone to record and share their knowledge or expertise.
- Evolving Mediasite's content management capabilities to accommodate organizations' existing digital video assets.
- Integrating with and embedding Mediasite content into enterprise portals, learning and course management systems, content management repositories, blogs or online communities.
- Enabling context-based viewing of webcasts within online environments that enable and encourage discussion around the content.

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 25 percent and 19 percent in 2011 and 2010, respectively.

Our largest individual customers are typically value added resellers ("VARs") and distributors since the majority of our end users require additional complementary products and services which we do not provide. Accordingly, in fiscal 2011 and 2010 one master distributor, Synnex Corporation ("Synnex"), contributed 24 percent and 32 percent, respectively, of total world-wide billings. A second master distributor, Starin Marketing, Inc. ("Starin"), contributed 26 percent and 22 percent of total world-wide billings in fiscal 2011 and 2010, respectively. As master distributors, Synnex and Starin fulfill transactions to VARs, end users and other distributors. No other customer represented over 10 percent of billings in 2011 or 2010.

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 2011, we utilized two master distributors in the U.S. and approximately 150 resellers, and sold our products to over 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, event planners 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 United States market, reseller and customer interest outside the United States has grown and accordingly, we allocated five sales professionals to address international demand. To date, we have sold our products to customers in over 50 countries outside the United States. Total billings for Mediasite product and support outside the United States totaled 25 percent and 19 percent in fiscal 2011 and 2010, respectively.

Vertical market expansion: Over half our revenue is realized from the education market. Recent trends such as 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 demonstrating 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 weak 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 our Mediasite Events group, we continue to see growing demand for conference webcasting and hybrid events (conferences which combine both face-to-face meeting and viewing over the web). 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.

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 2011, 67 percent of billings were to preexisting customers compared to 70 percent in fiscal 2010.

Renewals: As is typical in the industry, we offer annual support and maintenance service contract extensions for a fee to our customer base. Nearly all customers purchase a Customer Assurance plan with their initial Mediasite Recorders and Servers, and the majority renew their contracts annually.

Marketing

Marketing efforts span the spectrum of thought leadership and best practices webinars, tradeshows, product demonstrations, websites, public relations, social media, direct mail, e-mail campaigns, newsletters, print and online advertising, sponsorships, Mediasite User Group community building, annual user conference, brochures, 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 Mediasite Events. 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 alternative sources of manufacturing for some of the products we produce and believe there are numerous additional sources and alternatives to the existing production process. We have experienced delays in production of our products and component parts used in our products in the past and expect to maintain greater quantities of inventory in the future to mitigate the risk of such delays. To date, we have not experienced any 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 solutions** (e.g. 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 solutions** (e.g. 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** (e.g. Polycom Accordent PresenterPLUS and TechSmith Camtasia). 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. Mediasite is capable of ingesting content produced by popular desktop tools like TechSmith's Camtasia Relay or in video formats like Windows Media or H.264, allowing the content to be delivered, managed and secured alongside all other Mediasite content.
- **Online video services and virtual meeting platforms** (e.g. INXPO, Livestream, ON24, Onstream Media, InterCall, 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, Panopto, TechSmith, Crestron and Accordent Technologies (now Polycom), 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 to capture, publish and manage rich media content. This transparent recording automation means no presenter intervention which leads to the broadest end-user adoption across campuses. Room-based appliances are capable of streaming live or on-demand and can leverage the full breadth of in-room audio/visual technology. A room-based platform like Mediasite also includes complete content management 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) and like software applications support only on-demand streaming 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:

- Support for live as well as on-demand streaming to any device type
- Ease of use and application transparency to speed user adoption
- Complete rich media content management in a single platform
- Highly scalable appliance-based approach requiring minimal AV and IT support to address enterprise requirements
- Reliability and performance
- Price
- Security of content, applications and services
- Ability to integrate with third-party solutions and services
- Flexible deployment and acquisition options, including both on-premise and SaaS models, to suit various budgets
- Breadth and depth of pre- and post-sale customer service and support
- A significant reference-able customer base
- Ability to introduce new products and services to the market in a timely manner

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 eight 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, 2011 and 2010, we spent \$3.5 million and \$3.1 million, respectively, on internal research and development activities in our business. These amounts represent 14% and 15%, respectively, of total revenue in each of those years.

Employees

At September 30, 2011 and 2010, we had 94 and 90 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.

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 global economic crisis experienced since 2008 and any continuing unfavorable economic conditions have negatively affected, and could continue to negatively affect, our business, operating results or financial condition, which could in turn affect our stock price. Weak economic conditions and the resulting impact on the availability of public funds along with the possibility of state and local budget cuts and reduced university enrollment could lead to a reduction in demand for our products and services. In addition, a prolonged economic downturn could cause insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of the Company's products and inability or delay of our channel partners and other customers to pay accounts receivable owed to us.

Economic conditions may have a disproportionate effect 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 cost of 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.

Multiple unit deals are needed for continued success.

We need to sell multiple units to educational, corporate and government institutions in order to sell most efficiently and remain profitable. In fiscal 2011, 67% of revenue was to existing customers compared to 70% in fiscal 2010. In particular, sales of multiple units to corporate customers have lagged behind 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.

Manufacturing disruption or capacity constraints would harm our business.

We subcontract the manufacture of our mobile recorders to one third-party contract manufacturer and subcontract the manufacture of our rack recorder and a proprietary component of our recorders to 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 disruption of supply of component parts or completed products, even if short term, would have a negative impact on our revenues. Many component parts currently have long delivery lead times, requiring careful estimation of production requirements. Lengthening lead times, product design changes and other third party manufacturing disruptions have caused delays in delivery. In order to compensate for supply delays, we have sourced components from off-shore sources, used cross component parts, paid for expediting and currently hold substantially larger quantities of inventory than in the past. Many of these strategies have increased our costs and may not be sufficient to ensure against production delays. We depend on our subcontract manufacturers to produce our products efficiently while maintaining high levels of quality. Any manufacturing defects, delay in production or changes in product features will likely cause customer dissatisfaction and may harm our reputation. 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 could negatively affect revenues in the quarter of the disruption or longer depending upon the magnitude of the event, and could harm our reputation.

We may need to raise additional capital.

At September 30, 2011 we had cash of $5.5 million and availability under our line of credit facility with Silicon Valley Bank of $1.9 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 a history of operating losses prior to fiscal 2011 and historically used cash in operations prior to fiscal 2010. The Company improved both metrics with a combination of increased revenue and expense reductions over the last three fiscal years and while we expect to continue to increase revenue in fiscal 2012, we also anticipate investing more significantly in engineering and marketing resources and therefore increasing operating expenses. The Company believes such investments will lead to greater revenue growth in future years but there can be no assurance that our strategy will have such an effect on a timely basis, or at all. The Company believes its cash position and available credit is adequate to accomplish its business plan through at least the next twelve months.

We may evaluate further operating or capital lease opportunities or draw on our term debt facility with Silicon Valley Bank to finance equipment purchases in the future and may utilize the Company's revolving line of credit or term facility to support working capital needs. While the Company anticipates that it will be in compliance with all provisions of our debt facilities, there can be no assurance that the existing debt facilities will be available to the Company or 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 only recently achieved profitability.

While we reached profitability in two quarters of fiscal 2011 and generated cash from operations of $1.4 million, we may not realize sufficient revenues to sustain profitability on a quarterly or annual basis. For the year ended September 30, 2011, we had a gross margin of $17.9 million on revenue of $25.2 million with which to cover selling, marketing, product development and general and administrative costs. Our selling, marketing, product development and general and 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. Fluctuations in profitability or failure to maintain profitability will likely impact the price of our stock.

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.

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 sufficient 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, product enhancements or service offerings that address future needs of our target markets and to respond to these changing standards and practices. The success of new products, product enhancements or service offerings depend on several factors, including the timely completion, quality and market acceptance of the product, enhancement or service. Our revenue could be reduced if we do not capitalize on our current market leadership by timely developing innovative new products, product enhancements or service offerings that will increase the likelihood that our products and services will be accepted in preference to the products and services of our current and future competitors.

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 campaigns 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 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, particularly with customers or potential customers that rely on government funding.

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. As such, we believe that quarter-to-quarter comparisons of our revenues, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

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, even if the result was a short term delay in orders, 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 software 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 more recurring revenue. We subcontract for some services required by our events customers, such as close captioning, and charge for such services at a lower margin than other services. The percentage of billings represented by services, provided either directly or indirectly, 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 increase in the percentage of our billings for deferred services.

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 distributors such as Synnex Corporation and Starin Marketing, Inc., as well as 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 long-term continuation or increase, in 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. We have limited control, if any, as to whether these strategic partners devote adequate resources to promoting, selling and implementing our products as compared to our competitor's products. 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.

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, 50% of our billings in 2011 were to Synnex Corporation and Starin Marketing Inc., two master distributors who fulfill 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, Starin, or other large distributors or VARs, could have a material impact on the collections of our receivables during a particular quarter.

We have recently expanded 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 and advances allowable on accounts receivable from international customers under our revolving line of credit are calculated using a lower advance rate than domestic receivables and are limited to $500 thousand. Therefore, as Europe, Asia and other international regions grow, accounts receivable balances will likely increase as compared to previous years and our ability to finance the increase will be limited.

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, some of which are new, as well as varied interpretations and implementation practices for such rules. These rules require us to apply judgment in determining revenue recognition in certain situations. Factors that are considered in revenue recognition include those such as vendor specific objective evidence (VSOE), best estimate of selling price and the inclusion of other services and contingencies to payment terms. We expect that we will continue to defer portions of our service billings because of these factors, and to the extent that management's judgment is incorrect it could result in an increase in the amount of revenue deferred in any one period. The amounts deferred may also be significant and may vary from quarter to quarter depending on the mix of products sold or contractual 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, deteriorating economic conditions 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 have ranged from less than one month to 48 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 ratable 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.

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

The market for our products and services is intensely competitive, dynamic and subject to rapid technological change. The intensity of the competition and the pace of change are expected to increase in the future. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any one of which could seriously harm our business. Competitors vary in size and in the scope and breadth of the products and services offered, many of which have greater financial resources than we have. We encounter competition with respect to different aspects of our solution from a variety of sources including:

- **Web conferencing solutions** (e.g. 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 solutions** (e.g. Polycom, TANDBERG (now Cisco) and Sony). These solutions are designed primarily for one-to-one or group-to-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 solutions** (e.g. Polycom Accordent PresenterPLUS and TechSmith Camtasia). 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. Mediasite is capable of ingesting content produced by popular desktop tools like TechSmith's Camtasia Relay or in video formats like Windows Media or H.264, allowing the content to be delivered, managed and secured alongside all other Mediasite content.

- **Online video services and virtual meeting platforms** (e.g.INXPO, Livestream, ON24, Onstream Media, InterCall, 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, Panopto, TechSmith, Crestron and Accordent Technologies (now Polycom), 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 fully integrated system designed around an automated purpose-built recording appliance to capture, publish and manage rich media content. This transparent recording automation means no presenter intervention which leads to the broadest end-user adoption across campuses. Room-based appliances are capable of streaming live or on-demand and can leverage the full breadth of in-room audio/visual technology. A room-based platform like Mediasite also includes complete content management 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) and like software applications support only on-demand streaming 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.

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.

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, cause us to lose clients and sales to potential clients and 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 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. We have recently acquired additional hardware and systems and outsourced most aspects of our network infrastructure to two providers. As a result, we are reliant on third parties for network availability so outages may be outside our control and we may need to acquire additional hardware in order to provide an appropriate level of redundancy required by our customers.

We license technology from third parties. If we are unable to maintain these licenses, our operations and financial condition may be negatively impacted.

We license technology from third parties. The loss of, our inability to maintain, or changes in material terms of these licenses could result in increased cost or delayed sales of our software and services, or may cause us to remove features from our products or services. We anticipate that we will continue to license technology from third parties in the future. This technology may not continue to be available on commercially reasonable terms, if at all. Although we do not believe that we are substantially dependent on any individual licensed technology, some of the component technologies that we license from third parties could be difficult for us to replace. The impairment of these third-party relationships, especially if this impairment were to occur in unison, could result in delays in the delivery of our software and services until equivalent technology, if available, is identified, licensed and integrated. This delay could adversely affect our operating results and financial condition.

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 have, and will in the future, 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 customers to cancel orders or potential customers to purchase competitive products or services
- Delay market acceptance of our products

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.

We may develop lower cost solutions to certain of our products in order to address certain market segments. Such products, if implemented, would have more limited features compared to our existing products. While we believe we can preserve the market for our full-featured products, release of lower cost products could reduce demand for products sold at higher prices.

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 valuable 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 four U.S. patents that have been issued to us and one 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
- 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 may not have the resources to enforce our patents or may determine the potential benefits are not worth the cost and risk of ultimately being unsuccessful

We also rely upon trademark, copyright and trade secret laws, 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 six 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, it is possible that:

- 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
- Contractual agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information
- Other companies may claim common law trademark rights based upon state or foreign laws that precede the federal registration of our marks
- 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, which could harm our business.

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. Our officers and 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. As we seek to replace such departures, or expand our business, the hiring of qualified sales, technical and support personnel has been difficult due to the limited number of qualified professionals. 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 addition, we do not have life insurance policies on any of our key employees. If we lose the services of any of our key employees, 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 19% to 28% of our total billings in each of the past three years and 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, translating products into foreign languages and compliance with local hardware requirements;
- 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;
- difficulties in collecting accounts receivable in foreign countries, including complexities in documenting letters of credit; 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 more strict 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.

The large number of shares eligible for future sale may adversely affect the market price of our common stock.

With the departure of two of our former officers, there is a substantial number of shares of common stock that could be for sale in the public market which could materially adversely affect the market price of our common stock and impair our ability to raise capital through the sale of our equity securities. Our founder and former Chief Technology Officer left the Company on March 31, 2011 and is no longer subject to restrictions on affiliate sales of common stock under Rule 144 of the Securities Act of 1933("Rule 144"). Similarly, our former Executive Chairman left the Company on September 30, 2011 and will no longer be subject to restrictions on affiliate sales of common stock under Rule 144 as of December 29, 2011. The Company believes the two individuals hold or control approximately 300,000 shares of our common stock which is or will be saleable without regard to volume or other restrictions under Rule 144. Such former affiliates could sell their shares on the public market in volume levels that could adversely affect the price of our common stock.

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, 2011, we had 2 thousand of outstanding warrants and 786 thousand of outstanding stock options granted under our stock option plans, 536 thousand 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.

The use of our net operating loss carryforwards may have 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 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 business is subject to changing regulations regarding corporate governance and public disclosure that will increase both our costs and the risk of noncompliance.

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, 2011 and we were therefore not required to have an auditor attestation on our internal controls over financial reporting for fiscal 2011, SEC rules may in the future require us to have such an attestation if our non-affiliate market capitalization exceeds a certain threshold. We cannot assure that in the future our management or our auditors, will not find a material weakness in connection with 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.”

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 19% to 28% of our total billings in each of the past three years and 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, translating products into foreign languages and compliance with local hardware requirements;
- 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;
- difficulties in collecting accounts receivable in foreign countries, including complexities in documenting letters of credit; 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 more strict 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our principal office is located in Madison, Wisconsin in a leased facility of approximately 21,000 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, 2018.

ITEM 3. LEGAL PROCEEDINGS

None

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.

	High	Low
Year Ended September 30, 2012:		
First Quarter (through November 17, 2011)	$ 9.87	$ 8.50
Year Ended September 30, 2011:		
First Quarter	15.94	10.10
Second Quarter	15.90	13.45
Third Quarter	15.39	12.38
Fourth Quarter	13.47	8.68
Year Ended September 30, 2010:		
First Quarter	7.50	4.50
Second Quarter	8.21	4.80
Third Quarter	7.99	5.84
Fourth Quarter	11.12	6.81

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 November 17, 2011 there were 429 common stockholders of record and approximately 6,000 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)	635,835	11.70	158,883
Equity compensation plans not approved by security holders (2)	149,712	10.74	-
Total	785,547	11.52	158,883

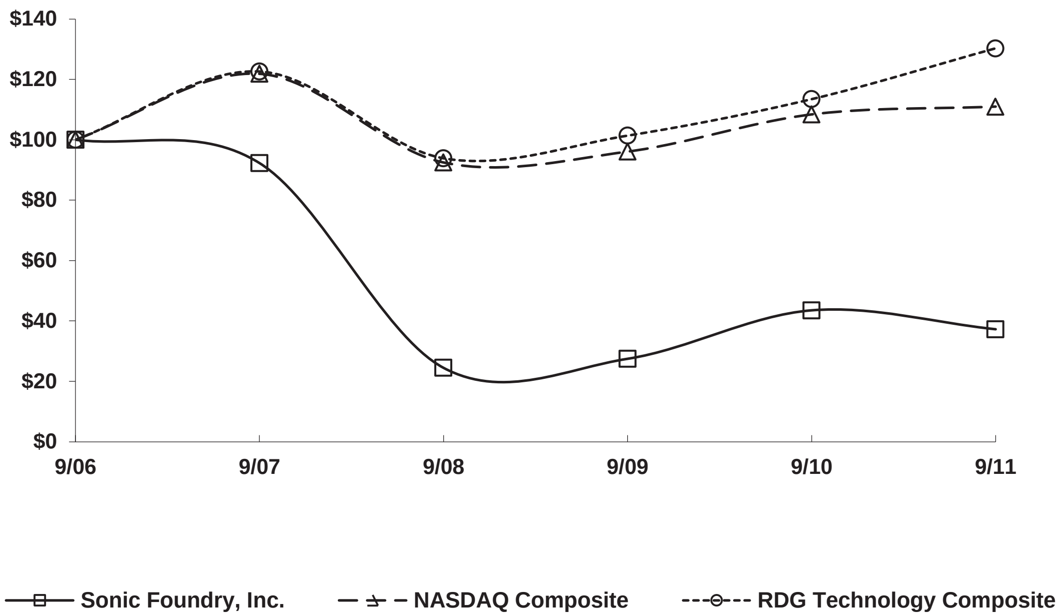
(1) Consists of the 2009 Stock Incentive Plan, Employee Incentive Stock Option Plan and the Directors Stock Option Plans. For further information regarding these plans, reference is made to Note 5 of the financial statements.

(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.

The graph below compares the cumulative total stockholder return on our common stock from September 30, 2006 through and including September 30, 2011 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, 2006 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 9/30/06 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

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,				
	2011	**2010**	**2009**	**2008**	**2007**
Statement of Operations Data:					
Revenue	$ 25,222	$ 20,476	$ 18,577	$ 15,601	$ 16,737
Cost of revenue	7,311	5,065	4,331	4,205	4,133
Gross margin	17,911	15,411	14,246	11,396	12,604
Operating expenses	17,633	15,138	16,724	19,279	19,222
Income (loss) from operations	278	273	(2,478)	(7,883)	(6,618)
Other income (expense), net	(310)	(170)	(25)	10	248
Provision for income taxes	(211)	(225)	(142)	(256)	(201)
Net loss	$ (243)	$ (122)	$ (2,645)	$ (8,129)	$ (6,571)
Basic net loss per common share	$ (0.06)	$ (0.03)	$ (0.74)	$ (2.28)	$ (1.89)
Diluted net loss per common share	$ (0.06)	$ (0.03)	$ (0.74)	$ (2.28)	$ (1.89)
Weighted average common shares: - Basic	3,748,840	3,617,423	3,598,040	3,557,966	3,468,803
- Diluted	3,748,840	3,617,423	3,598,040	3,557,966	3,468,803

Balance Sheet Data at September 30:	**2011**	**2010**	**2009**	**2008**	**2007**
Cash and cash equivalents	$ 5,515	$ 3,358	$ 2,598	$ 3,560	$ 8,008
Working capital	3,083	1,442	(344)	774	7,940
Total assets	21,840	18,267	16,173	17,474	23,981
Long-term liabilities	3,072	3,202	1,977	1,610	1,825
Stockholders' equity	9,261	7,137	6,601	8,455	15,908

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. 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.

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

The Company sells support and content hosting contracts to our customers, typically one year in length, and records 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 when these additional elements are sold with hosting. 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

The Company has historically applied the software revenue recognition rules as prescribed by Accounting Standards Codification (ASC) Subtopic 985-605. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Number 2009-14, "Certain Revenue Arrangements That Include Software Elements," which amended ASC Subtopic 985-605. This ASU removes tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of the software revenue recognition rules. In the case of the Company's hardware products with embedded software, the Company has determined that the hardware and software components function together to deliver the product's essential functionality, and therefore, the revenue from the sale of these products no longer falls within the scope of the software revenue recognition rules. Revenue from the sale of software-only products remains within the scope of the software revenue recognition rules. Installation, training, and post customer support no longer fall within the scope of the software revenue recognition rules, except when they are sold with and relate to a software-only product. Revenue recognition for products that no longer fall under the scope of the software revenue recognition rules is similar to that for other tangible products. ASU Number 2009-13, "Multiple-Deliverable Revenue Arrangements," which amended ASC Topic 605 and was also issued in October 2009, is applicable for multiple-deliverable revenue arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction's economics. ASU 2009-13 and 2009-14 were adopted and are effective for revenue arrangements entered into or materially modified in the Company's fiscal year 2011.

Under the software revenue recognition rules, the fee from a multiple-deliverable arrangement is allocated to each of the undelivered elements based upon vendor-specific objective evidence (VSOE), which is limited to the price charged when the same deliverable is sold separately, with the residual value from the arrangement allocated to the delivered element. The portion of the fee that is allocated to each deliverable is then recognized as revenue when the criteria for revenue recognition are met with respect to that deliverable. If VSOE does not exist for all of the undelivered elements, then all revenue from the arrangement is typically deferred until all elements have been delivered to the customer. All revenue arrangements, with the exception of hosting contracts, entered into prior to October 1, 2010 and the sale of all software-only products and associated services have been accounted for under this guidance during the year ended September 30, 2011.

Under the revenue recognition rules for tangible products as amended by ASU 2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence (TPE) if VSOE is not available, and best estimate of selling price (ESP) if neither VSOE nor TPE are available. TPE is the price of the Company's or any competitor's largely interchangeable products or services in stand-alone sales to similarly situated customers. ESP is the price at which the Company would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors. All revenue arrangements negotiated after September 30, 2010, excluding the sale of all software-only products and associated services, have been accounted for under this guidance during the year ended September 30, 2011.

The selling prices used in the relative selling price allocation method are as follows: (1) for the Company's products and certain services are based upon VSOE, (2) for hardware products with embedded software for which VSOE does not exist are based upon ESP. The Company does not believe TPE exists for any of these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes ESP for hardware products with embedded software using a cost plus margin approach with consideration for market conditions, such as the impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product and the Company's profit objectives. Management believes that ESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis. When a sales transaction includes deliverables that are divided between ASC Topic 605 and ASC Subtopic 985-605, the Company allocates the selling price using the relative selling price method whereas value is allocated using an ESP for software developed using a percent of list price approach. The other deliverables are valued using ESP or VSOE as previously discussed.

While the pricing model, currently in use, captures all critical variables, unforeseen changes due to external market forces may result in a revision of the inputs. These modifications may result in the consideration allocation differing from the one presently in use. Absent a significant change in the pricing inputs or the way in which the industry structures its deals, future changes in the pricing model are not expected to materially affect our allocation of arrangement consideration.

Management has established VSOE for hosting services. Billings for hosting are spread ratably over the term of the hosting agreement, with the typical hosting agreement having a term of 12 months, with renewal on an annual basis. The Company sells most hosting contracts without the inclusion of products, and occasionally some hosting contracts in conjunction with the sale of product. When the hosting arrangement is sold in conjunction with product, the product revenue is recognized immediately while the remaining hosting revenue is spread ratably over the term of the hosting agreement. The selling price is allocated between these elements using the relative selling price method. The Company uses the estimated selling price method for development of the selling price for hardware products with embedded software.

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.

Credit Evaluation and Allowance for Doubtful Accounts

We assess the realization of our receivables by performing ongoing credit evaluations of our customers' financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. Our reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information is received. Our reserves are also based on amounts determined by using percentages applied to certain aged receivable categories. These percentages are determined by a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. Allowance for doubtful accounts for accounts receivable was $90,000 at September 30, 2011 and $105,000 at September 30, 2010.

Impairment of long-lived assets

We assess the impairment of goodwill 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. 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.

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

The Company uses a lattice valuation model to account for all stock options granted. The lattice valuation model provides a 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 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. Forfeitures are based on actual behavior patterns.

Recent Accounting Pronouncements

The Company adopted in October 2010, the Accounting Standards Update 2009-13, "*Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements*" ("ASU 2009-13") and ASU 2009-14, "*Software (Topic 985) — Certain Revenue Arrangements That Include Software Elements*" ("ASU 2009-14"). ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: (i) vendor-specific objective evidence, or "VSOE", or (ii) third-party evidence, or "TPE", before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. Overall arrangement consideration will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. These new updates are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Entities must adopt the amendments resulting from both of these ASUs in the same period using the same transition method, where applicable. The adoption of these ASUs did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, "*Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*" ("ASU 2010-20"). The standard amends ASC Topic 310, "*Receivables*" to enhance disclosures about the credit quality of financing receivables and the allowance for credit losses by requiring an entity to provide a greater level of disaggregated information and to disclose credit quality indicators, past due information, and modifications of its financing receivables. ASU 2010-20 is effective for interim or annual fiscal years beginning after December 15, 2010. The Company's adoption of ASU 2010-20 did not have a material impact on its consolidated financial statements.

In December 2010 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-28, "Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts". ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts by requiring an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This update will be effective for fiscal years beginning after December 15, 2010. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs", (ASU 2011-04), which amends ASC 820. This update clarifies the existing guidance and amends the wording used to describe many of the requirements in US GAAP for measuring fair value and for disclosing information about fair value measurements. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with prospective application required. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, "Intangible – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment." The amendments in this ASU permit an entity to first assess qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after

December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

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. 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 fiscal 2011 totaled $25.2 million, compared to $20.5 million in fiscal 2010, an increase of 23%. Revenue consisted of the following:

- Product revenue from the sale of Mediasite recorder units and server software increased from $10.5 million in fiscal 2010 to $12.8 million in fiscal 2011. Product revenue growth includes an increase in recorders sold to domestic higher education customers including an increase in discounted upgrade recorders sold to customers whose product had reached end of hardware warranty eligibility.

	2011	2010
Units sold	1,250	1,023
Rack to mobile ratio	2.3 to 1	1.9 to 1
Average sales price, excluding support (000's)	$9.6	$10.1
Refresh Units	327	158

- Services revenue represents 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 $9.8 million in fiscal 2010 to $12.2 million in fiscal 2011 due primarily to an increase in hosting and event services as well as an increase in customer support contracts on Mediasite recorder units. At September 30, 2011 $6.0 million of revenue was deferred, of which we expect to recognize approximately $2.4 million in the quarter ending December 31, 2011.

- Other revenue relates to freight charges billed separately to our customers.

Gross Margin

Total gross margin in fiscal 2011 was $17.9 million or 71% compared to $15.4 million or 75% in fiscal 2010. Gross margin was affected by an increase in direct and outsourced event labor costs with lower markups for services which the Company does not provide, such as closed captioning. Gross margin was also impacted by a greater volume of discounted upgrade units for customers whose product had reached end of hardware warranty eligibility, an increase in the rack to mobile ratio and by an increase in high definition material cost. These effects were partially offset by a lesser number of higher quantity transactions with corresponding discount pricing in fiscal 2011 than in fiscal 2010. The significant components of cost of revenue include:

- Material and freight costs for the Mediasite recorders. Costs for fiscal 2011 Mediasite recorder hardware and other costs totaled $4.8 million compared to $3.4 million in fiscal 2010. Freight costs were $369 thousand and labor and allocated costs were $813 thousand in fiscal 2011 compared to $226 thousand and $712 thousand in fiscal 2010.
- Services costs. Staff wages and other costs allocated to cost of service revenues were $1.4 million in fiscal 2011 and $720 thousand in fiscal 2010, resulting in gross margin on services of 89% in fiscal 2011 and 93% in fiscal 2010. Certain customers contracted with us to provide a suite of professional services, including closed captioning and other services for which we subcontract and charge our customers at significantly lower profit margins. Such sub-contracted services increased by approximately $477 thousand during fiscal 2011 over the prior year.

The Company expects the gross margin percentage to remain constant or higher in fiscal 2012 as total revenue increases and as the Company benefits from manufacturing efficiencies in fiscal 2012.

Operating Expenses

Selling and Marketing Expenses

Selling and marketing expenses include wages and commissions for sales, marketing, business development 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 or entrance into new markets, or participation in major tradeshows.

Selling and marketing expense increased $1.25 million, or 13% from $9.5 million in fiscal 2010 to $10.75 million in fiscal 2011. Significant differences include:

- Salaries, incentive compensation, and benefits increased $769 thousand over the prior year due to slightly higher staff levels in fiscal 2011 and the increase in sales and corresponding commission compensation compared to fiscal 2010.
- Costs also increased by $469 thousand as a result of higher stock compensation expense, bonus and depreciation expense.

At September 30, 2011 we had 64 employees, excluding interns, in Selling and Marketing, an increase from 61 employees at September 30, 2010. We expect our headcount to increase slightly in fiscal 2012 to support future growth.

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.

G&A expenses increased $269 thousand, or 11%, from $2.5 million in fiscal 2010 to $2.8 million in fiscal 2011. Major components of the change include:

- An increase in compensation and benefits of $156 thousand, primarily related to a temporary increase in headcount during the second half of the year
- Computer supplies increase of $64 thousand, primarily related to employee network support and upgrades

At September 30, 2011 and September 30, 2010 we had 6 full-time employees in G&A. We do not anticipate growth in G&A headcount in fiscal 2012.

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 increased $449 thousand, or 14%, from $3.1 million in fiscal 2010 to $3.5 million in fiscal 2011. Some significant differences include:

- Professional services increase of $140 thousand, primarily related to payments made pursuant to a consulting agreement with our former chief technology officer during the second half of fiscal 2011
- Costs also increased by $304 thousand as a result of higher stock compensation expense, bonus and depreciation expense.

At September 30, 2011 we had 24 employees, excluding interns, in Product Development compared to 23 employees at September 30, 2010. We anticipate growth in R&D headcount in fiscal 2012. No fiscal 2011 or 2010 software development efforts qualified for capitalization.

Severance Costs

On September 30, 2011, Rimas Buinevicius resigned his position as Chief Strategy Officer, Executive Chairman of the Board, and Director. The Company has agreed to pay Mr. Buinevicius, in equal bi-weekly installments over a one-year period, an amount equal to one and five hundredths (1.05) multiplied by the highest cash compensation paid to Mr. Buinevicius in any of the last three fiscal years immediately prior to his termination. Mr. Buinevicius' unvested stock options also immediately vested on September 30, 2011 upon termination. The consulting agreement with Monty Schmidt, former Chief Technology Officer and Director, was also terminated in September 2011. The remaining six months of Mr. Schmidt's consulting agreement along with Mr. Buinevicius' one year severance agreement and immediately vested stock options total $528 thousand of expense have been fully recognized in fiscal 2011. These severance amounts will be paid in full throughout fiscal 2012.

Other Expense, Net

Other income included primarily interest income from investments in certificates of deposit and overnight investment vehicles. Lower interest rates led to a decrease in interest income from $20 thousand in fiscal 2010 to $6 thousand in fiscal 2011. Other expense primarily consists of interest costs related to outstanding debt and amortization of a debt discount. An increased level of debt in the second half of fiscal 2010 associated with a note payable to Partners for Growth was the primary driver of increased interest expense from $190 thousand in fiscal 2010 to $316 thousand in fiscal 2011. Interest in fiscal 2011 includes $142 thousand of non-cash interest associated with the amortization of debt discount relating to the issuance of warrants. The Company paid the balance of the note payable to Partners for Growth in October 2011.

Provisions Related to Income Taxes

The Company records a non-cash deferred tax liability related to goodwill acquired in 2001. The related income tax expense was $240 thousand for both fiscal 2011 and fiscal 2010. The Company netted an income tax credit of $29 thousand against this amount for fiscal 2011 and $15 thousand for fiscal 2010.

LIQUIDITY AND CAPITAL RESOURCES

We fund our operations primarily with cash generated from operations and debt. On September 30, 2011 and 2010, we had cash and cash equivalents of $5.5 million and $3.4 million, respectively.

Cash provided by operating activities totaled $1.4 million in fiscal 2011 and $593 thousand in fiscal 2010, an improvement of $821 thousand. Cash provided in fiscal 2011 was impacted by working capital changes including the negative effects of a $746 thousand increase in accounts receivable and an increase in prepaid expenses and other assets of $307 thousand. These were offset by the positive effects of increases in accounts payable, accrued liabilities and other long-term liabilities of $999 thousand. During 2010, working capital adjustments included the positive effects of an increase in unearned revenue and accounts payable, accrued liabilities and other long-term liabilities of $801 thousand and $122 thousand, respectively. These were offset by the negative effects of an increase in accounts receivable of $1.3 million.

Cash used in investing activities totaled $739 thousand in fiscal 2011 compared to cash used in investing activities of $464 thousand in fiscal 2010. Investing activities for each of these two years were due to purchases of property and equipment.

Cash provided by financing activities in fiscal 2011 totaled $1.5 million compared to $631 thousand in fiscal 2010. Cash provided in fiscal 2011 was due primarily to proceeds from exercise of common stock options of $1.7 million and $800 thousand of proceeds from notes payable. This was partially offset by $985 thousand of cash used for payments on notes payable. Cash provided in fiscal 2010 was primarily due to a new note payable for $1.25 million partially offset by $613 thousand of cash used for payments on notes payable and the line of credit.

The Company believes its cash position is adequate to accomplish its business plan through at least the next twelve months. We will likely evaluate operating or capital lease opportunities to finance equipment purchases in the future or utilization of the Company's revolving line of credit to support working capital needs. 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 March 5, 2010, the Company and its wholly-owned subsidiary executed the $1,250,000 Loan and Security Agreement (the "Term Loan") with Partners for Growth II. L.P. ("PFG"). The Term Loan bears interest at 11.75% per annum with principal due in 36 equal monthly payments of $34,722 beginning April 1, 2011 and continuing through March 1, 2014. Coincident with closing of the Term Loan the Company repaid the outstanding balance of its revolving line of credit with Silicon Valley Bank ("Silicon Valley Bank"). In October 2011, the Company paid off the remaining balance of the Term Loan.

On June 27, 2011, the Companies executed the Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank (the "Second Amended Agreement"). Under the Second Amended Agreement, the revolving line of credit will continue to have a maximum principal amount of $3,000,000. Interest will accrue on the revolving line of credit at the per annum rate of one percent (1.0%) above the Prime Rate (as defined), provided that Sonic Foundry maintains an Adjusted Quick Ratio (as defined) of greater than 2.0 to 1.0, or one-and-one half percent (1.5%) above the Prime Rate, if Sonic Foundry does not maintain an Adjusted Quick Ratio of greater than 2.0 to 1.0. The Second Amended Agreement does not provide for a minimum interest rate on the revolving loan. The Second Amended Agreement also provides for an increase in the advance rate on domestic receivables from 75% to 80%, and extends the facility maturity date to October 1, 2013. Under the Second Amended Agreement, the existing 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 Bank's prime rate; or (ii) eight and three quarters percent (8.75%). In addition, a new term loan can be issued in multiple draws provided that the total term loan from Silicon Valley Bank shall not exceed $2,000,000 and provided further that total term debt shall not exceed $2,400,000. Under the Second Amended Agreement, any new draws on the term loan will accrue interest at a per annum rate equal to the Prime Rate plus three and three quarters percent (3.75%). The Second Amended Agreement does not provide for a minimum interest rate on the new term loan. Each draw on the new term loan will be amortized over a 36-month period. All draws on the term loan must be made within ten (10) months of June 27, 2011. The Second Amended Agreement also requires Sonic Foundry to continue to comply with certain financial covenants, including covenants to maintain an Adjusted Quick Ratio (as defined) of at least 1.75 to 1.00 and Debt Service Coverage Ratio of at least 1.25 to 1.00, the latter of which will be waived if certain funds are reserved. The Company maintains the revolving line of credit with Silicon Valley and has $1.9 million available for borrowing at September 30, 2011.

Contractual Obligations

The following summarizes our contractual obligations at September 30, 2011 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
Product purchase commitments	$ 1,314	$ 1,314	$ —	$ —	$ —
Operating lease obligations	4,144	553	1,145	1,193	1,253
Capital lease obligations (a)	290	103	187	—	—
Notes payable (a)	1,763	997	766	—	—

(a) Includes fixed and determinable interest payments

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 not significant due to the short-term nature of these investments.

At September 30, 2011, $0.6 million of debt outstanding is at a fixed rate and $1.0 million of debt outstanding is variable rate. We do not expect that an increase in the level of interest rates would have a material impact on our Consolidated Financial Statements. We monitor our positions with, and the credit quality of, the financial institutions that are party to any of our financial transactions.

Foreign Currency Exchange Rate Risk

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

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) as of September 30, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). 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 and financial statement schedules 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. and subsidiary as of September 30, 2011 and 2010, 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 consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

Milwaukee, Wisconsin
November 22, 2011

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

	September 30, 2011	September 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 5,515	$ 3,358
Accounts receivable, net of allowances of $90 and $105	5,799	5,038
Inventories	536	541
Prepaid expenses and other current assets	740	433
Total current assets	12,590	9,370
Property and equipment:		
Leasehold improvements	980	980
Computer equipment	3,586	2,597
Furniture and fixtures	461	461
Total property and equipment	5,027	4,038
Less accumulated depreciation and amortization	3,391	2,801
Net property and equipment	1,636	1,237
Other assets:		
Goodwill	7,576	7,576
Other intangibles, net of amortization of $137 and $71	38	84
Total assets	$ 21,840	$ 18,267
Liabilities and stockholders' equity		
Current liabilities:		
Revolving line of credit	$ -	$ -
Accounts payable	1,373	1,138
Accrued liabilities	1,073	752
Accrued severance	528	-
Unearned revenue	5,547	5,486
Current portion of capital lease obligations	89	-
Current portion of notes payable	897	552
Total current liabilities	9,507	7,928
Long-term portion of unearned revenue	471	587
Long-term portion of capital lease obligation	177	-
Long-term portion of notes payable	694	1,040
Other liabilities	-	85
Deferred tax liability	1,730	1,490
Total liabilities	12,579	11,130
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; 3,845,531 and 3,650,823 shares issued and 3,832,815 and 3,638,107 shares outstanding	38	37
Additional paid-in capital	188,339	185,973
Accumulated deficit	(178,921)	(178,678)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)
Total stockholders' equity	9,261	7,137
Total liabilities and stockholders' equity	$ 21,840	$ 18,267

See accompanying notes

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

	Years Ended September 30,	
	2011	**2010**
Revenue:		
Product	$ 12,784	$ 10,477
Services	12,187	9,849
Other	251	150
Total revenue	25,222	20,476
Cost of revenue:		
Product	5,957	4,345
Services	1,354	720
Total cost of revenue	7,311	5,065
Gross margin	17,911	15,411
Operating expenses:		
Selling and marketing	10,755	9,506
General and administrative	2,811	2,542
Severance costs	528	-
Product development	3,539	3,090
Total operating expenses	17,633	15,138
Income from operations	278	273
Interest expense	(316)	(190)
Other income, net	6	20
Total other expense, net	(310)	(170)
Income (loss) before income taxes	(32)	103
Provision for income taxes	(211)	(225)
Net loss	$ (243)	$ (122)
Loss per common share:		
Basic net loss per common share	$ (0.06)	$ (0.03)
Diluted net loss per common share	$ (0.06)	$ (0.03)
Weighted average common shares – Basic	3,748,840	3,617,423
– Diluted	3,748,840	3,617,423

See accompanying notes

Sonic Foundry, Inc.
Consolidated Statements of Stockholders' Equity
For the Year Ended September 30, 2011 and 2010
(in thousands)

	Common stock	Additional paid-in capital	Accumulated Deficit	Receivable for common stock issued	Treasury stock	Total
Balance, September 30, 2009	$ 362	$184,990	$ (178,556)	$ (26)	$ (169)	$ 6,601
One for ten reverse stock split	(325)	325	—	—	—	—
Stock compensation and other	—	295	—	—	—	295
Issuance of common stock warrants and common stock	—	325	—	—	—	325
Exercise of common stock options	—	38	—	—	—	38
Net loss	—	—	(122)	—	—	(122)
Balance, September 30, 2010	37	185,973	(178,678)	(26)	(169)	7,137
Stock compensation and other	—	664	—	—	—	664
Issuance of common stock	—	32	—	—	—	32
Exercise of common stock warrants and options	1	1,670	—	—	—	1,671
Net loss	—	—	(243)	—	—	(243)
Balance, September 30, 2011	$ 38	$188,339	$ (178,921)	$ (26)	$ (169)	$ 9,261

See accompanying notes

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

	Years Ended September 30,	
	2011	**2010**
Operating activities		
Net loss	$ (243)	$ (122)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of other intangibles	208	73
Depreciation and amortization of property and equipment	704	543
Provision for doubtful accounts	(15)	—
Deferred taxes	240	240
Stock-based compensation expense related to stock options	707	295
Changes in operating assets and liabilities:		
Accounts receivable	(746)	(1,297)
Inventories	(78)	(101)
Prepaid expenses and other assets	(307)	39
Accounts payable, accrued liabilities and other long-term liabilities	999	122
Unearned revenue	(55)	801
Net cash provided by operating activities	1,414	593
Investing activities		
Purchases of property and equipment	(739)	(464)
Net cash used in investing activities	(739)	(464)
Financing activities		
Net proceeds from (payments on) revolving line of credit	—	(300)
Proceeds from notes payable	800	1,250
Payments on notes payable	(985)	(313)
Payments of loan fees	(21)	(90)
Proceeds from issuance of common stock	32	70
Proceeds from exercise of common stock warrants and options	1,671	38
Payments on capital leases	(15)	(24)
Net cash provided by financing activities	1,482	631
Net increase in cash and cash equivalents	2,157	760
Cash and cash equivalents at beginning of period	3,358	2,598
Cash and cash equivalents at end of period	$ 5,515	$ 3,358
Supplemental cash flow information:		
Interest paid	174	153
Non-cash transactions:		
Property and equipment financed by accounts payable, accrued liabilities or capital lease	330	63

See accompanying notes

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. 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 wholly-owned subsidiary, Sonic Foundry Media Systems, Inc. All significant intercompany transactions and balances have been eliminated. In 2011 and 2010, 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 and sale occurs. 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 our server software.

Services

The Company sells support and content hosting contracts to our customers, typically one year in length, and records 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 when these additional elements are sold with hosting. 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

The Company has historically applied the software revenue recognition rules as prescribed by Accounting Standards Codification (ASC) Subtopic 985-605. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Number 2009-14, "Certain Revenue Arrangements That Include Software Elements," which amended ASC Subtopic 985-605. This ASU removes tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of the software revenue recognition rules. In the case of the Company's hardware products with embedded software, the Company has determined that the hardware and software components function together to deliver the product's essential functionality, and therefore, the revenue from the sale of these products no longer falls within the scope of the software revenue recognition rules. Revenue from the sale of software-only products remains within the scope of the software revenue recognition rules. Installation, training, and post customer support no longer fall within the scope of the software revenue recognition rules, except when they are sold with and relate to a software-only product. Revenue recognition for products that no longer fall under the scope of the software revenue recognition rules is similar to that for other tangible products. ASU Number 2009-13, "Multiple-Deliverable Revenue Arrangements," which amended ASC Topic 605 and was also issued in October 2009, is applicable for multiple-deliverable revenue arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction's economics. ASU 2009-13 and 2009-14 were adopted and are effective for revenue arrangements entered into or materially modified in the Company's fiscal year 2011.

Under the software revenue recognition rules, the fee from a multiple-deliverable arrangement is allocated to each of the undelivered elements based upon vendor-specific objective evidence (VSOE), which is limited to the price charged when the same deliverable is sold separately, with the residual value from the arrangement allocated to the delivered element. The portion of the fee that is allocated to each deliverable is then recognized as revenue when the criteria for revenue recognition are met with respect to that deliverable. If VSOE does not exist for all of the undelivered elements, then all revenue from the arrangement is typically deferred until all elements have been delivered to the customer. All revenue arrangements, with the exception of hosting contracts, entered into prior to October 1, 2010 and the sale of all software-only products and associated services have been accounted for under this guidance during the year ended September 30, 2011.

Under the revenue recognition rules for tangible products as amended by ASU 2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence (TPE) if VSOE is not available, and best estimate of selling price (ESP) if neither VSOE nor TPE are available. TPE is the price of the Company's or any competitor's largely interchangeable products or services in stand-alone sales to similarly situated customers. ESP is the price at which the Company would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors. All revenue arrangements negotiated after September 30, 2010, excluding the sale of all software-only products and associated services, have been accounted for under this guidance during the year ended September 30, 2011.

The selling prices used in the relative selling price allocation method are as follows: (1) for the Company's products and certain services are based upon VSOE, (2) for hardware products with embedded software for which VSOE does not exist are based upon ESP. The Company does not believe TPE exists for any of these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes ESP for hardware products with embedded software using a cost plus margin approach with consideration for market conditions, such as the impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product and the Company's profit objectives. Management believes that ESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis. When a sales transaction includes deliverables that are divided between ASC Topic 605 and ASC Subtopic 985-605, the Company allocates the selling price using the relative selling price method whereas value is allocated using an ESP for software developed using a percent of list price approach. The other deliverables are valued using ESP or VSOE as previously discussed.

While the pricing model, currently in use, captures all critical variables, unforeseen changes due to external market forces may result in a revision of the inputs. These modifications may result in the consideration allocation differing from the one presently in use. Absent a significant change in the pricing inputs or the way in which the industry structures its deals, future changes in the pricing model are not expected to materially affect our allocation of arrangement consideration.

Management has established VSOE for hosting services. Billings for hosting are spread ratably over the term of the hosting agreement, with the typical hosting agreement having a term of 12 months, with renewal on an annual basis. The Company sells most hosting contracts without the inclusion of products, and occasionally some hosting contracts in conjunction with the sale of product. When the hosting arrangement is sold in conjunction with product, the product revenue is recognized immediately while the remaining hosting revenue is spread ratably over the term of the hosting agreement. The selling price is allocated between these elements using the relative selling price method. The Company uses the estimated selling price method for development of the selling price for hardware products with embedded software.

Reserves

The Company records reserves for stock rotations, price adjustments, rebates, and sales incentives to reduce revenue and accounts receivable for these and other credits granted 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 the Company determines that it can no longer accurately estimate amounts for stock rotations and sales incentives, the Company 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 assess the realization of our receivables by performing ongoing credit evaluations of our customers' financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. Our reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information is received. Our reserves are also based on amounts determined by using percentages applied to certain aged receivable categories. These percentages are determined by a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. Allowance for doubtful accounts for accounts receivable was $90,000 at September 30, 2011 and $105,000 at September 30, 2010.

We had billings for Mediasite product and support services as a percentage of total billings to one distributor of approximately 24% in 2011 and 32% in 2010 and to a second distributor of approximately 26% in 2011 and 22% in 2010. At September 30, 2011 and 2010, these two distributors represented 68% and 57%, respectively of total accounts receivable.

Currently all of our product inventory purchases are from two suppliers. 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 disruption of supply of component parts or completed products, even if short term, would have a negative impact on our revenues. At September 30, 2011 and 2010, these two suppliers represented 21% and 55%, respectively of total accounts payable.

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 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,	
	2011	**2010**
Raw materials and supplies	$ 10	$ 10
Finished goods	526	531
	$ 536	$ 541

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	5 to 7 years

Impairment of Long-Lived Assets

We assess the impairment of goodwill 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. The Company has recognized no such losses as of September 30, 2011 and 2010.

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. For the years ended September 30, 2011 and 2010, no events or changes in circumstances occurred that required this analysis.

Advertising Expense

Advertising costs included in selling and marketing, are expensed when the advertising first takes place. Advertising expense was $169 and $156 thousand for years ended September 30, 2011 and 2010, respectively.

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.

The Company also accounts for the uncertainty in income taxes related to the recognition and measurement of a tax position and measurement of a tax position taken or expected to be taken in an income tax return. The Company follows the applicable accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure related to the uncertainty in income tax positions.

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 employee stock options granted. The lattice valuation model provides a 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 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. Forfeitures are based on actual behavior patterns.

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

	Years Ending September 30,	
	2011	2010
Expected life	4.4 – 4.8 years	4.4 – 5.5 years
Risk-free interest rate	0.4% - 1.4%	0.8% - 1.4%
Expected volatility	68.2% - 83.0%	83.2% - 87.2%
Expected forfeiture rate	12.80%-17.70%	15.41%-18.38%
Expected exercise factor	1.15 – 1.32	1.19 – 2.23
Expected dividend yield	0%	0%

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,	
	2011	2010
Denominator for basic earnings per share - weighted average common shares	3,748,840	3,617,423
Effect of dilutive options and warrants (treasury method)	—	—
Denominator for diluted earnings per share - adjusted weighted average common shares	3,748,840	3,617,423
Options and warrants outstanding during each year, but not included in the computation of diluted earnings per share because they are antidilutive	787,347	855,792

Recent Accounting Pronouncements

The Company adopted in October 2010, the Accounting Standards Update 2009-13, "*Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements*" ("ASU 2009-13") and ASU 2009-14, "*Software (Topic 985) — Certain Revenue Arrangements That Include Software Elements*" ("ASU 2009-14"). ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: (i) vendor-specific objective evidence, or "VSOE", or (ii) third-party evidence, or "TPE", before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. Overall arrangement consideration will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. These new updates are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Entities must adopt the amendments resulting from both of these ASUs in the same period using the same transition method, where applicable. The adoption of these ASUs did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, "*Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*" ("ASU 2010-20"). The standard amends ASC Topic 310, "*Receivables*" to enhance disclosures about the credit quality of financing receivables and the allowance for credit losses by requiring an entity to provide a greater level of disaggregated information and to disclose credit quality indicators, past due information, and modifications of its financing receivables. ASU 2010-20 is effective for interim or annual fiscal years beginning after December 15, 2010. The Company's adoption of ASU 2010-20 did not have a material impact on its consolidated financial statements.

In December 2010 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-28, "Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts". ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts by requiring an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This update will be effective for fiscal years beginning after December 15, 2010. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs", (ASU 2011-04), which amends ASC 820. This update clarifies the existing guidance and amends the wording used to describe many of the requirements in US GAAP for measuring fair value and for disclosing information about fair value measurements. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with prospective application required. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, "Intangible – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment." The amendments in this ASU permit an entity to first assess qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

2. Commitments

The Company leases certain equipment under capital lease agreements expiring through August 2014. Such leases are included in fixed assets with a cost of $282 thousand and accumulated depreciation of $10 thousand at September 30, 2011. Minimum lease payments, including principal and interest, are summarized in the table below.

Fiscal Year (in thousands)	Capital
2012	$ 103
2013	103
2014	84
Total payments	290
Less interest	(24)
Total	$ 266

The Company leases certain facilities and equipment under operating lease agreements expiring at various times through September 30, 2018. Total rent expense related to continuing operations on all operating leases was approximately $522 thousand and $501 thousand for the years ended September 30, 2011 and 2010, respectively.

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

Fiscal Year (in thousands)	Operating
2012	$ 553
2013	566
2014	579
2015	589
2016	604
Thereafter	1,253
Total	$ 4,144

The Company enters into unconditional purchase commitments on a regular basis for the supply of Mediasite product. The Company has an obligation to purchase $1.3 million at September 30, 2011, which is not recorded on the Company's Consolidated 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.

3. 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 (“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. Prior to the Second Amended Agreement, discussed below, the revolving line of credit accrued interest at a per annum rate equal to the following: (i) during such period that Sonic Foundry maintained 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 Bank's prime rate, or seven percent (7.0%); or (ii) during such period that Sonic Foundry maintained 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 Bank's prime rate, or seven and one-half percent (7.5%). Under the Amended Loan Agreement and the Second Amended Agreement, the outstanding 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 as defined below, was to be repaid in full on May 1, 2010.

On April 14, 2009, the Companies executed the First Amendment to the Amended Loan Agreement with Silicon Valley Bank (the "First Amendment"). The First Amendment, among other things, a) refinanced 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) continued to require a reserve under the Revolving Line for the balance of the term loan 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) modified the minimum requirements under the EBITDA covenant, but maintained a provision to override such covenant if the Company maintains a minimum Adjusted Quick Ratio of 1.75 to 1.00; and d) extended the maturity date of the Revolving Line to October 1, 2011 and the Term Loan 2 to April 1, 2012. The First Amendment also required the Company to continue to maintain certain of their depository, operating and securities accounts with Silicon Valley Bank, and to continued to comply with 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.

On June 27, 2011, the Companies executed the Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank (the "Second Amended Agreement"). Under the Second Amended Agreement, the revolving line of credit will continue to have a maximum principal amount of $3,000,000. Interest will accrue on the revolving line of credit at the per annum rate of one percent (1.0%) above the Prime Rate (as defined), provided that Sonic Foundry maintains an Adjusted Quick Ratio (as defined) of greater than 2.0 to 1.0, or one-and-one half percent (1.5%) above the Prime Rate, if Sonic Foundry does not maintain an Adjusted Quick Ratio of greater than 2.0 to 1.0. The Second Amended Agreement does not provide for a minimum interest rate on the revolving loan. The Second Amended Agreement also provides for an increase in the advance rate on domestic receivables from 75% to 80%, and extends the facility maturity date to October 1, 2013. Under the Second Amended Agreement, the existing 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 Bank's prime rate; or (ii) eight and three quarters percent (8.75%). In addition, a new term loan can be issued in multiple draws provided that the total term loan from Silicon Valley Bank shall not exceed $2,000,000 and provided further that total term debt shall not exceed $2,400,000. Under the Second Amended Agreement, any new draws on the term loan will accrue interest at a per annum rate equal to the Prime Rate plus three and three quarters percent (3.75%). The Second Amended Agreement does not provide for a minimum interest rate on the new term loan. Each draw on the new term loan will be amortized over a 36-month period. All draws on the term loan must be made within ten (10) months of June 27, 2011. The Second Amended Agreement also requires Sonic Foundry to continue to comply with certain financial covenants, including covenants to maintain an Adjusted Quick Ratio (as defined) of at least 1.75 to 1.00 and Debt Service Coverage Ratio of at least 1.25 to 1.00, the latter of which will be waived if certain funds are reserved.

At September 30, 2011, a balance of $982 thousand was outstanding on the term loans with Silicon Valley Bank and no balance was outstanding on the revolving line of credit. At September 30, 2011, there was $1.9 million available under this credit facility for advances and $1.2 million was available for advances under the term loan. At September 30, 2011 the Company was in compliance with all covenants in the Second Amended Agreement.

The Second Amended 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 Second Amended Agreement.

Pursuant to the Second Amended Agreement, the Companies pledged as collateral to Silicon Valley Bank substantially all non-intellectual property business assets. The Companies also entered into an Intellectual Property Security Agreement with respect to intellectual property assets.

Partners for Growth

On March 5, 2010, the Companies executed a $1,250,000 Loan and Security Agreement (the "Term Loan") and a $750,000 Revolving Loan and Security Agreement (the "Revolving Loan") with Partners for Growth II, L.P. ("PFG"), (collectively the "Agreements").

The Term Loan bore interest at 11.75% per annum with principal due in 36 equal monthly payments of $34,722 beginning April 1, 2011 and continuing through March 1, 2014. At September 30, 2011, a balance of $642 thousand was outstanding on the Term Loan. In October 2011, the Company paid the remaining balance of the Term Loan.

At September 30, 2011, the Term Loan was collateralized by substantially all the Companies' assets, including intellectual property, subject to a first lien held by Silicon Valley Bank. The Term Loan required compliance with an adjusted quick ratio covenant of 1.75:1.00. As of September 30, 2011, the Companies were in compliance with this covenant.

Coincident with execution of the Agreements, the Company entered into a Warrant Purchase Agreement ("Purchase Agreement") and a Warrant Agreement ("Warrant") with PFG. Pursuant to the terms of the Purchase Agreement, PFG purchased a warrant to purchase up to 76,923 shares of common stock of the Company at an exercise price of $6.25 per share, subject to certain adjustments, for a purchase price of $3,333. A warrant to purchase 48,077 shares of common stock was immediately exercisable. PFG exercised 24,039 shares in November 2010 and the remaining 24,038 shares in January 2011. Both such warrant exercise transactions were completed on a cashless basis resulting in 14,595 and 13,712 shares issued, respectively. The remaining warrant to purchase 28,846 shares of common stock has expired.

The Company valued the warrants issued pursuant to the Purchase Agreement using the Black-Scholes method assuming a 1) life of seven years; 2) volatility factor of 86.9%; 3) risk free interest rate of 1.38%. The resulting value of the warrants, less $3,333 proceeds received from PFG, is treated as a debt discount and netted against the carrying value of the Term Loan on the consolidated balance sheet. The discount is amortized at a constant rate applied to the outstanding balance of the Term Loan with a corresponding increase to non-cash interest expense. At September 30, 2011 the remaining balance of the discount was $32 thousand.

On June 28, 2011, the Companies entered into a Consent and Modification No. 1 to Loan and Security Agreement ("Consent and Modification Agreement") with PFG. Under the Consent and Modification Agreement, PFG consented to the Companies incurring additional indebtedness to Silicon Valley Bank, provided that total outstanding term indebtedness owed to PFG and Silicon Valley Bank does not exceed $1,900,000.

The annual principal payments on the term loans were as follows:

Fiscal Year (in thousands)	
2012	$ 897
2013	492
2014	234
Total	1,623
Debt discount	(32)
Net total	$ 1,591

4. 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 2011 and granted 48,077 warrants in fiscal 2010. 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.

Exercise Prices	Warrants Outstanding at September 30, 2011	Expiration Date
$ 23.50	750	2012
36.70-37.10	1,050	2011 to 2012
	1,800	

5. Stock Options and Employee Stock Purchase Plan

On March 5, 2009, Stockholders approved adoption of the 2009 Stock Incentive Plan (the "2009 Plan"). The 2009 Plan, beginning October 1, 2009, replaced two former employee stock option plans that terminated coincident with the effectiveness of the 2009 Plan. The Company also 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.

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

	Qualified Employee Stock Option Plans	Director Stock Option Plans
Shares available for grant at September 30, 2009	375,400	30,000

Options granted	(52,250)	(10,500)
Options forfeited	4,150	–
Shares available for grant at September 30, 2010	327,300	19,500
Options granted	(189,051)	(12,500)
Options forfeited	13,634	–
Shares available for grant at September 30, 2011	151,883	7,000

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

	Years Ended September 30,			
	2011		**2010**	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding at beginning of year	764,718	$ 10.98	766,615	$ 16.20
Granted	201,551	12.64	62,750	6.63
Exercised	(138,496)	10.08	(14,198)	8.22
Forfeited	(42,226)	11.69	(50,449)	85.41
Outstanding at end of year	785,547	$ 11.52	764,718	$ 10.98
Exercisable at end of year	535,668		555,587	
Weighted average fair value of options granted during the year	$ 5.39		$ 3.64	

The options outstanding at September 30, 2011 have been segregated into four ranges for additional disclosure as follows:

	Options Outstanding			**Options Exercisable**	
Exercise Prices	**Options Outstanding at September 30, 2011**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Options Exercisable at September 30, 2011**	**Weighted Average Exercise Price**
$ 4.20 to $9.90	356,094	7.4	$ 6.52	244,667	$ 6.19
10.10 to 14.83	253,119	5.5	12.71	147,193	12.13
15.00 to 19.40	127,251	6.5	15.94	94,725	16.19
20.80 to 46.90	49,083	5.0	32.65	49,083	32.65
	785,547			535,668	

At September 30, 2011, there was $851 thousand of total unrecognized compensation cost related to non-vested stock-based compensation, including $140 thousand of estimated forfeitures. The cost is expected to be recognized over a weighted-average life of 2.2 years.

A summary of the status of the company's non-vested shares at September 30, 2011 and for the year then ended is presented below:

	Shares	**Weighted Average Grant Date Fair Value**
Non-vested shares at October 1, 2010	209,131	$ 4.28
Granted	201,551	5.39
Vested	(132,876)	4.88
Forfeited	(27,927)	4.42
Non-vested shares at September 30, 2011	249,879	$ 5.05

Stock-based compensation recorded in the year ended September 30, 2011 of $707 thousand was allocated $482 thousand to selling and marketing expenses, $49 thousand to general and administrative expenses and $176 thousand to product development expenses. Stock-based compensation recorded in the year ended September 30, 2010 of $295 thousand was allocated $199 thousand to selling and marketing expenses, $21 thousand to general and administrative expenses and $75 thousand to product development expenses. Cash received from exercises under all stock option plans and warrants for the years ended September 30, 2011 and 2010 was $1.7 million and $38 thousand, respectively. There were no tax benefits realized for tax deductions from option exercises for the years ended September 30, 2011 and 2010. The Company currently expects to satisfy stock-based awards with registered shares available to be issued.

The Company also has an Employee Stock Purchase Plan (Purchase Plan) under which an aggregate of 100,000 common shares may be issued. The Shareholders approved an amendment to increase the number of shares of common stock subject to the plan from 50,000 to 100,000 at the Company's annual meeting in March 2011. All employees who have completed 90 days of employment with the Company on the first day of each offering period and customarily work twenty hours per week or more 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. A total of 50,418 shares are available to be issued under the plan. Due to the timing of the increase of shares pursuant to the plan, the Company did not offer any shares for purchase during the six month period ending June 30, 2011. There were 5,405 and 17,053 shares purchased by employees during fiscal 2011 and 2010, respectively. The Company recorded stock compensation expense under this plan of $16 and $23 thousand during fiscal 2011 and 2010, respectively. Cash received from issuance of stock under this plan was $32 and $70 thousand during fiscal 2011 and 2010, respectively.

6. Income Taxes

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

	Years Ended September 30,	
	2011	**2010**
Current tax benefit	$ (29)	$ (15)
Deferred income tax expense	240	240
Provision for income taxes	$ 211	$ 225

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):

	Years Ended September 30,	
	2011	**2010**
Income tax expense (benefit) at U.S. statutory rate of 34%	$ (11)	$ 35
Federal income tax refundable research credit	(29)	(15)
State income tax expense (benefit)	(2)	5
Permanent differences, net	158	13

Adjustment of temporary differences to income tax returns	212	1,560
Change in valuation allowance	(117)	(1,373)
Income tax expense	$ 211	$ 225

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

	September 30,	
	2011	**2010**
Deferred tax assets:		
Net operating loss and other carryforwards	$ 34,444	$ 34,663
Common stock warrants	460	398
Allowance for doubtful accounts	35	41
Other	249	203
Total deferred tax assets	35,188	35,305
Valuation allowance	(35,188)	(35,305)
Goodwill amortization	(1,730)	(1,490)
Deferred tax liability for goodwill amortization	$ (1,730)	$ (1,490)

At September 30, 2011, the Company had net operating loss carryforwards of approximately $87 million for U.S. Federal and $51 million for state tax purposes. For Federal tax purposes, the carryforwards expire in varying amounts between 2018 and 2031. For State tax purposes, the carryforwards expire in varying amounts between 2013 and 2030. 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 $500 thousand, which expire in varying amounts between 2017 and 2020.

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.

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, 2011 was $1.73 million and $1.49 million at September 30, 2010.

In accordance with accounting guidance for uncertainty in income taxes, the Company has concluded that a reserve for income tax contingencies is not necessary. 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 consolidated balance sheets at September 30, 2011 and 2010, and has not recognized any interest or penalties in the consolidated statement of operations for the years ended September 30, 2011 or 2010. The Company's tax rate differs from the expected tax rate each reporting period as a result of the aforementioned items.

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.

7. 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 matching contributions of $229 and $66 thousand during the years ended September 30, 2011 and 2010, respectively. The Company suspended the matching contribution for the 2010 calendar year. The Company made no additional discretionary contributions during 2011 and 2010.

8. Related-Party Transactions

The Company incurred fees of $220 and $244 thousand during the years ended September 30, 2011 and 2010, respectively, to a law firm whose partner is a director and stockholder of the Company. The Company had accrued liabilities for unbilled services to the same law firm of $50 and $54 thousand at September 30, 2011 and 2010, respectively.

The Company recorded Mediasite product and customer support revenue related to $861 and $566 thousand of billings during the years ended September 30, 2011 and 2010 to Mediasite KK, a Japanese reseller in which the Company has an equity interest. Mediasite KK owed the Company $241 and $63 thousand on such billings at September 30, 2011 and 2010, respectively. The Company accounts for its investment in Mediasite KK under the equity method. The recorded value at September 30, 2011 and 2010 is zero.

During the years ended September 30, 2011 and 2010, the Company had a loan outstanding to an executive totaling $26 thousand. The loan is collateralized by Company stock.

9. Goodwill and Other Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are not amortized but, instead, tested at least annually for impairment. The Company assesses the impairment of goodwill 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 the Company determines that the fair value of goodwill is less than its carrying value, based upon the annual test or the existence of impairment, the Company 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, an impairment charge for the difference would be recorded. The Company performed its annual goodwill impairment test as of July 1, 2011 and tested goodwill recognized in connection with the acquisition of Mediasite and determined it was not impaired.

The following tables present details of the Company's total intangible assets at September 30, 2011 and 2010:

(in thousands)	Life (years)	Gross	Accumulated Amortization at September 30, 2011	Balance at September 30, 2011
Amortizable:				
Loan origination fees	3	$ 175	$ 137	$ 38
		175	137	38
Non-amortizable goodwill		7,576	-	7,576
Total		$ 7,751	$ 137	$ 7,614

(in thousands)	Life (years)	Gross	Accumulated Amortization at September 30, 2010	Balance at September 30, 2010
Amortizable:				
Loan origination fees	3	$ 155	$ 71	$ 84
		155	71	84
Non-amortizable goodwill				
		7,576	-	7,576
Total		$ 7,731	$ 71	$ 7,660

10. Segment Information

The Company has determined that it operates in only one segment 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,	
	2011	2010
United States	$ 19,231	$ 16,559
Europe and Middle East	3,311	1,929
Asia	1,161	875
Other	1,519	1,113
Total	$ 25,222	$ 20,476

11. Customer Concentration

In the fiscal year ended September 30, 2011 and 2010, two distributors represented 50% and 54% of total revenue. At September 30, 2011 and 2010, these two distributors represented 68% and 57%, respectively of total accounts receivable.

12. Quarterly Financial Data (unaudited)

The following table sets forth selected quarterly financial information for the years ended September 30, 2011 and 2010. The operating results are not necessarily indicative of results for any future period.

(in thousands except per share data)	Quarterly Financial Data							
	Q4-'11*	Q3-'11	Q2-'11	Q1-'11	Q4-'10	Q3-'10	Q2-'10	Q1-'10
Revenue	$ 6,677	$ 7,090	$ 5,525	$ 5,930	$ 5,439	$ 5,626	$ 4,909	$ 4,502
Gross margin	4,852	4,928	3,870	4,261	4,070	4,183	3,676	3,482
Gain (loss) from operations	(277)	361	(152)	346	236	330	(43)	(250)
Net income (loss)	(406)	212	(272)	223	126	203	(131)	(320)
Basic and diluted net income (loss) per share	$ (0.11)	$ 0.06	$ (0.07)	$ 0.06	$ 0.03	$ 0.06	$ (0.04)	$ (0.09)

***** During Q4-'11, the company recognized $528 thousand of expense due to executive severance compensation triggered by the resignations of Rimas Buinevicius, former Executive Chairman of the Board, and Monty Schmidt, former Chief Technology Officer.

13. Subsequent Events

In October 2011, the Company paid the remaining balance of the Partners for Growth Term Loan.

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, 2011, 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.

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 2011 Annual Meeting of Stockholders, which will be filed no later than January 28, 2012 (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.

ITEM 14. PRINCIPAL ACCOUNTING 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 2010 and 2011 Audit Fee Summary" in the Proxy Statement.

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