

SONIC FOUNDRY INC
Form 10-K
December 12, 2012
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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, 2012

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
(State or other jurisdiction)

39-1783372
(I.R.S. Employer)

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of incorporation or organization)

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 \$29,987,000.

The number of shares outstanding of the registrant's common equity was 3,900,024 as of December 6, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2012 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, 2013.

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For the Year Ended September 30, 2012

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. (NASDAQ: SOFO) is the trusted market leader for enterprise webcasting solutions, providing video content management and distribution for education, business and government. Powered by the patented Mediasite webcasting platform, Sonic Foundry empowers people to share knowledge online, use webcasts to bridge time and distance, enhance learning outcomes and improve performance.

Sonic Foundry solutions include:

Mediasite Recorders for capturing video and rich media presentations

Mediasite EX for video content management and distribution

Mediasite Events for turnkey meeting, conference and event webcasting services based on the Mediasite platform

Mediasite Services for hosting, installation, training and integration

Mediasite Customer Assurance for annual hardware and software maintenance and technical support
Today, over 2,500 customers using more than 6,500 Mediasite Recorders in presentation environments around the world are capturing hundreds of thousands of multimedia presentations with millions of viewers.

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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 Investors 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:

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Ensuring learners' academic and professional success

Enabling learners to review course material to improve retention and positively impact learning outcomes and 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 in person

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

Reducing time to train new hires

Increasing retention by avoiding distractions, interruptions or absence

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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 an online 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 information to different audiences

Reducing repeated costs for printing, mailing and meeting expenses

Enabling individuals to attend professional development in light of 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

Designed with instructors and speakers in mind, Mediasite Recorders automatically capture their video and any presentation materials in high resolution and webcasts them live or on-demand without changing how they present. The result is a high quality, interactive streaming experience to a broad range of devices from laptops and computers to all of the most popular mobile devices. 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 webcasting throughout their academic or corporate enterprise.

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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

Mediasite EX, a powerful video content management platform for distributing and archiving live and on-demand content, provides a single system to catalog, customize, search, secure, analyze and edit video-based content.

Mobile-ready and unconstrained by traditional webcast layouts, watching live or on-demand Mediasite presentations is like being in the room with the presenter, but with flexible playback options and interactive tools to enhance learning and improve retention.

We understand the value in quickly publishing, retrieving and measuring the impact of video content. Mediasite automatically publishes content to searchable online catalogs or embeds content directly in learning or course management systems – no web development or integration skills are required. Powerful analytics show who is watching what and when, providing valuable data for viewing patterns that we believe correlate to improved learning outcomes, increased performance and program effectiveness.

Built to leverage existing IT and AV infrastructures, Mediasite EX reduces the resources and effort to manage multimedia content. Its built-in scheduler saves time by recording and publishing recurring presentations in a fully automated operation. Integration with leading enterprise directories guarantees that content and intellectual property remain secure. Best of all, Mediasite EX scales to meet any webcasting needs, whether departmentally with a couple of rooms or implemented campus- or company-wide. Customers also have the flexibility to deploy Mediasite on-premises, hosted within Sonic Foundry's SaaS datacenter or through a combination of both models.

Mediasite Events

Mediasite Events equips customers with a team of trained technicians who work on-site to webcast conferences and events.

Enhances attendee experience with online presentation catalogs

Reaches a wider audience, making webcasts available to those not able to attend

Brands webcasts 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

Organizations can quickly and easily take advantage of the Mediasite platform, without wading through IT or network complexities associated with their infrastructure, with these Mediasite Services:

Cloud Services / Software as a Service (SaaS): Our cloud services offering provides 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 webcasting and video content management initiatives quickly and simply. They provide a low-risk way to implement Mediasite before adopting an on-premises implementation and for some organizations, provide a hassle-free long-term solution.

Installation: Sonic Foundry provides onsite consulting and installation services to help customers optimize on-premises deployments and efficiently integrate Mediasite within 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.

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Advanced Integration Services: 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

Sonic Foundry's annually renewable maintenance and support plans provide customers access to technical expertise and Mediasite software updates. With a Mediasite Customer Assurance contract, customers are entitled to:

Software upgrades and updates for Mediasite Recorders and Mediasite EX

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 Mediasite EX.

What Sets Mediasite Apart?

Comprehensive video content management and delivery Sonic Foundry believes a complete solution focuses on all phases of the academic and business video lifecycle – from content creation to delivery to retention and management. Mediasite automatically creates searchable online catalogs of Mediasite-recorded as well as uploaded content from other sources – whether live or on-demand. With integration support for leading enterprise directories, all content can be secured to manage access to specific groups or individuals based on roles and permissions. Powerful analytics allow organizations to track and report on exactly who is watching what, when and how long.

Powerful video search We understand the need to bring order to growing video libraries so content can be found, used and re-purposed to derive maximum value. Mediasite's powerful search capabilities leverage indexed slide text, audio transcripts, presentation metadata and tags to find where keywords are spoken or shown during a webcast and display a playlist of these instances for the user.

Interactive playback on any device Mediasite provides an interactive experience that engages the viewer via different modalities – auditory, visual and kinesthetic – to increase content comprehension and retention. Unconstrained by viewing device or traditional webcast layouts, watching a live or archived Mediasite presentation is like being in the room with the presenter, but with greater playback control and time-saving conveniences. Mediasite's interactivity incorporates polls, ask-a-question capabilities and links to other related reference materials. Support for video closed captioning enhances the playback experience for learners of all abilities. The interactive Mediasite experience is available on Windows PC, Mac, iPad, iPhone, iPod, Android and BlackBerry.

Flexible deployment options Sonic Foundry offers customers the option to implement Mediasite video content management on-premises, in the cloud or as any combination of the two. Customers find the convenience of being able to mix and match deployment models, depending on the unique requirements of their business, to be an attractive option that provides Mediasite a competitive advantage over SaaS- or on-premises-only offerings.

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. With over 1000 active customer members, the Mediasite User Group (MUG) is one of the most vibrant and 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, live quarterly meetings and unrivaled networking and learning opportunities at UNLEASH, the annual Mediasite User Conference.

Market Leadership Industry analyst firm, Frost & Sullivan, has consistently recognized Mediasite as the worldwide market leader for lecture capture, naming Sonic Foundry the Global Market Share Leader in Lecture Capture Solutions for six consecutive years, from 2007 to 2012. The Frost & Sullivan Award for Market Share

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Leadership is presented to the company that demonstrates excellence in capturing the highest market share within its industry. According to Mukul Krishna, Frost & Sullivan Global Director, Sonic Foundry's world-class reputation, legacy of innovation and rich features, including live HD streaming, ubiquitous mobile playback and a robust video content management system, set the company apart and establish it as the uncontested leader for lecture capture. Sonic Foundry's outstanding performance inspires participants in the lecture capture solutions market to strive for new levels of success. The company's unique competitive perspective provides its worldwide customer base with technologies that dramatically enhance on-campus, blended and distance learning initiatives. Mediasite has also been voted best in class in five consecutive Streaming Media Readers' Choice Awards and named 2011 Best Video Capture, Production and Publishing Solution by *eLearning! Magazine*.

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

Flipped classroom instruction: students view lectures from home and use classroom time for discussion

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

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

Enables their institution to remain competitive by supporting higher enrollment and/or tuition without new classrooms

Empowers faculty with technology supporting new teaching pedagogies both in the classroom and online

Boosts campus outreach, recruitment efforts and awareness of campus events

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 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 impacting the 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, *Going the Distance: Online Education in the United States, 2011*, online enrollments the past several years have been growing considerably. The 10 percent growth rate for online enrollments far exceeds the less than one percent growth of the overall higher education student population. The survey of more than 2,500 colleges and universities nationwide finds more than 6.1 million students were enrolled in at least one online course in the fall 2010 term, 560,000 more than in the fall 2009 term. Sixty-seven percent of academic leaders 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. Sixty-five percent of all reporting institutions now say that online learning is a critical part of their long term strategy, with 31 percent of all higher education students now taking at least one course online.

Community colleges, specifically, have significantly increased their number of blended or hybrid and web-enhanced courses. The Instructional Technology Council's 2011 Distance Education Survey Results: *Trends in eLearning: Tracking the Impact of eLearning at Community Colleges* (April 2012) reported an 8.2 percent increase in distance

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education enrollments, higher than the less than one percent increase in overall higher education campus enrollment. Twenty-seven percent of community colleges offer blended/hybrid courses, and fifty-five percent continue to increase the number of blended/hybrid courses each term. Factors cited for contributing to the increase in elearning enrollments include downturn in the economy (22 percent), typical growth for distance education classes (28 percent) and new enrollment initiatives (14 percent). The study also showed that overall, 68 percent of community colleges offer audio/video streaming, and another 12 percent plan to offer audio/video streaming in the next year.

According to The Campus Computing Project's *Campus Computing 2011: The National Survey of Computing and Information Technology in American Higher Education*, 66 percent of all universities indicated that they already have or are currently preparing a strategic plan for lecture capture

In their *2011 21st Century Campus Report* (July 2011), CDW-G reports that 72 percent of faculty and 66 percent of students believe digital content is considered essential to a 21st century classroom. Of IT professionals surveyed, 68 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 *Market Sizing & Forecast 2011-2016: Lecture Capture & Streaming for Education & Training* (December 2011), Lecture capture and streaming tools are now reaching a stage of maturity and usability that presages mainstream adoption. In fact, lecture capture by the end of the forecast period in this report, 2016 is likely to be as pervasive as email on college campuses.

Several universities have conducted their own independent studies to assess the impact of Mediasite on student performance. Last 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 at <http://sofo.com/ada52>.

A survey of dental students 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

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74% would recommend the dental school to potential students because of Mediasite

95% expressed satisfaction with Mediasite

This finding and additional findings from independent research projects at other universities and colleges are published in the ebook, *Evaluating the Impact of Mediasite Lecture Capture on Retention, Recruitment and Student Satisfaction* which can be downloaded at <http://bit.ly/PIZjyJ>.

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, Instructure, Desire2Learn®, Angel, or Sakai

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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 and its support for the Basic Learning Tools Interoperability (LTI) standard, 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 and 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, surgical training

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

Boosts efficiency by allowing participants to watch when it's convenient to avoid interruptions and increase retention

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Helps build stronger teams through direct management/employee communications

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, 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 need to be seen and heard by their colleagues, and the return on investment (ROI) for multimedia online learning is real and measurable.

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Matt Brown, senior analyst for Forrester Research wrote in the April 11, 2011 report, *Market Overview: Video Platforms For The Enterprise*, [Content and collaboration] pros planning video initiatives should look beyond just videoconferencing when they consider the benefits of video. Streaming video, for example, is less taxing on the network particularly for ad hoc, on-demand use and is more scalable to a large audience of employees, customers, and partners. He further reported that video platforms are designed for a broad set of enterprise uses. Among others, common capabilities include:

Capture live or ingest pre-recorded video

Manage workflow and content rules deliver live or on-demand video to three screens

Engage with video content during and after viewing

Report on video performance and viewership

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, *2012 Enterprise Streaming Solutions Market Sizing & 5-Year Forecast* (August 2012), senior analyst and partner Ira Weinstein and Steve Vonder Haar, senior analyst, estimate the enterprise streaming solutions market (which includes content capture and management solutions and related services for installation, training and support) totaled \$470 million in 2011. According to the report, this market will expand to more than \$1 billion by 2016 with Weinstein projecting a CAGR for the period around 19 percent; a growth rate that will see the absolute size of the market nearly double.

In the *2012 Enterprise Webcasting Services Market Size & 5-Year Forecast*, also by Wainhouse Research, Weinstein and Vonder Haar reported the actual spending on the webcasting services market for hosted streaming application platforms supporting live virtual events (specifically

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excluding web conferencing offerings and consumer-focused video streaming services) exceeded \$350 million in 2011. By 2016, Weinstein and Vonder Haar predict the market will expand to \$920 million.

Future Directions

Because webcasting, lecture capture and video are becoming an everyday part of the way people work and learn, we are driven to shorten the time it takes people to not only capture and share their information but to also quickly find and effectively manage it. As a company, we are helping create and manage the video libraries of tomorrow. Supporting this vision, our ongoing innovations center on:

Advancing enterprise video content management to accommodate organizations' existing digital video assets, content generated from third-party solutions and the corresponding metadata associated with those video assets.

Offering expanded content capture solutions that test the limits of capturing multiple high definition video sources.

Continuing to introduce the industry's widest assortment of content capture solutions that scale even more economically across entire organizations, allowing anyone to record and share their knowledge or expertise from their desktop.

Expanding and automating Mediasite's powerful multi-modal search capabilities.

Supporting ubiquitous and interactive content playback on all popular mobile devices.

Deepening integration with core enterprise platforms including learning and course management systems (LMS/CMS), content management repositories, online learning portals and student information systems (SIS).

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Continuing to introduce innovations to our cloud-based or Software as a Service (SaaS) offering for Mediasite an increasingly attractive alternative to on-premises deployments that seek to minimize IT challenges and risk while affordably extending high performance, fault tolerant webcasting services.

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 27 percent and 25 percent in fiscal 2012 and 2011, 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 2012 and 2011 one master distributor, Synnex Corporation (Synnex), contributed 18 percent and 24 percent, respectively, of total world-wide billings. A second master distributor, Starin Marketing, Inc. (Starin), contributed 25 percent and 26 percent of total world-wide billings in fiscal 2012 and 2011, 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 2012 or 2011.

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 2012, we utilized two master distributors in the U.S. and approximately 130 resellers, and sold our products to over 1,100 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 allocate 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 27 percent and 25 percent in fiscal 2012 and 2011, 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.

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Repeat orders: Many customers initially purchase a small number of Mediasite Recorders to test or pilot in a department, school or business unit. A successful pilot project and the associated increase in webcasting demand from other departments or schools leads to follow up, multiple Recorder orders as well as increased Mediasite Server capacity. In fiscal 2012, 81 percent of billings were to preexisting customers compared to 67 percent in fiscal 2011.

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, tradeshow, 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 a third party to build the hardware for 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 provider and shipped directly to the end customer or reseller. The hardware manufacturer provides 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 believe there are alternative sources of manufacturing for our recorders 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

Various vendors provide lecture capture, enterprise webcasting or video content management capabilities, but few offer an end-to-end solution that addresses all phases of the video content lifecycle (capture, delivery and management) in a single platform like Mediasite.

Lecture capture solutions designed specifically for higher education differ in their technology approach.

Appliance- or room-based lecture capture provides a fully integrated system with complete recording automation for live or on-demand content. The automated, pre-scheduled workflow results in the greatest faculty and staff adoption and largest volumes of recorded content in the shortest amount of time.

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Software-based lecture capture that resides on a podium or computer in the classroom also captures and publishes rich media content, but relies on campus- or user-supplied hardware.

Desktop capture tools reside on individual users' laptops or computers allowing them to record user-generated content.

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Few lecture capture vendors, like Sonic Foundry and Echo360, offer a mix of lecture capture approaches to best suit customers' needs. Most vendors, including Crestron, Panopto, TechSmith and Tegrity, support only one approach to lecture capture. Likewise, a very small number of vendors provide an integrated platform to archive and manage video and rich media recorded with their solution. Most rely on a third-party platform, typically the institution's learning or course management system, to publish and secure content.

Enterprise video management solutions (e.g. Brightcove, Kaltura) serve as centralized media repositories that facilitate the delivery, publishing and management of on-demand video. Unlike Mediasite, most platforms do not include a video capture, webcasting or live streaming component, but instead ingest or import video-based content captured by other third-party devices or solutions.

Some current and potential customers develop their own home-grown lecture capture, webcasting or video content solutions which may also compete with Mediasite. However, we often find many of these organizations are now looking for a commercial solution offering comprehensive management capabilities, less internal maintenance and resources, and a less cumbersome workflow.

Solutions that are designed primarily to address other online communication needs sometimes compete with Mediasite. Often these solutions are complementary to Mediasite and are integrated with the Mediasite solution as follows:

Web conferencing (e.g. Adobe, Cisco WebEx and Citrix). These solutions are designed primarily for one-to-few or group collaboration online versus one-to-many communications like Mediasite. Many organizations acknowledge that they need both technologies to appropriately address their different communication requirements. In a growing number of instances, customers are ingesting their recorded web conferencing content into the Mediasite EX platform.

Video conferencing (e.g. Polycom and Cisco TANDBERG). Similar to web conferencing, these solutions are designed primarily for one-to-few or group communications with high levels of interactivity and collaboration. Similarly, many organizations integrate their video conferencing endpoints with Mediasite to record and manage interactive meetings, discussions and distance learning courses alongside their Mediasite content.

Authoring tools (e.g. TechSmith). Unlike webcasting, web conferencing or video conferencing, which capture and stream content as it occurs in real-time, these tools are used to produce and edit on-demand multimedia content. Content authors integrate audio, video, images, branding and other visual elements into a presentation which can then be published for distribution. The authoring process can require a significant amount of production effort and user expertise. Mediasite is capable of ingesting content produced by popular authoring tools like TechSmith's Camtasia Relay allowing the content to be delivered, managed and secured alongside all other Mediasite content.

Virtual meeting platforms (e.g. INXPO, ON24, InterCall Unisfair). These companies offer cloud-based virtual event solutions for online conferences, tradeshows and meetings. The platforms often include the ability to embed or link to streaming video or webcasts within the interactive environment, however they do not provide the streaming video directly.

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 four U.S. patents have been issued to us and we may seek additional patents in the future. We do not know if 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 our patents which have been issued or any patents we may receive in the future will be challenged, invalidated or be of any

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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. Any future, patent applications may not result in the issuance of valid patents.

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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 four 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 or may be required to defend against alleged infringement claims filed against our customers due to indemnification agreements. 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, 2012 and 2011, we spent \$4.1 million and \$3.5 million, respectively, on internal research and development activities in our business. These amounts represent 16% and 14%, respectively, of total revenue in each of those years. The increase reflects our decision to accelerate development on identified new products as well as enhancements to existing products.

Employees

At September 30, 2012 and 2011, we had 109 and 94 full-time employees, respectively. Our employees are not represented by a labor union, nor are they subject to a collective bargaining agreement. We have never experienced a work stoppage and believe that our employee relations are satisfactory.

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ITEM 1A. RISK FACTORS

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

Economic conditions could materially adversely affect the Company.

The 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 2012, 81% of revenue was to existing customers compared to 67% in fiscal 2011. 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 recorders to one 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 our contract manufacturer, a disruption of supply of component parts or completed products, even if short term, would have a material negative impact on our revenues. Many component parts currently have long delivery lead times and some suppliers cease production of certain components with limited notice in which to evaluate or obtain alternate supply, both require 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

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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, 2012 we had cash of \$4.5 million and availability under our line of credit facility with Silicon Valley Bank of \$2.8 million. The Company has historically financed its operations primarily through cash from sales of equity securities, and to a limited extent, cash from operations and, through bank credit facilities. The Company has a history of operating losses 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 several fiscal years and while we expect to continue to increase revenue in fiscal 2013 and manage our expense growth to a level less than anticipated growth in revenues, we cannot ensure that revenue will grow as anticipated and if revenue is determined to be growing at a rate less than anticipated, it may be too late to reduce expenses for fiscal 2013. 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 incur additional term debt to finance equipment purchases in the future and may utilize the Company's revolving line of credit to support working capital needs. While the Company anticipates that it will be in compliance with all provisions of 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 fiscal 2012 and generated cash from operations of \$350 thousand, we may not realize sufficient revenues to sustain profitability on a quarterly or annual basis. For the year ended September 30, 2012, we had a gross margin of \$18.8 million on revenue of \$26.1 million with which to cover selling, marketing, product development and general and administrative costs. Our selling, marketing, product development and general and administrative 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

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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 cycles are 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. In addition, educational institutions that started with small pilots are committing to more complex installations. Further, our educational market is expanding to include undergraduate classrooms, which, due to the increased size of these types of transactions, typically require a longer sales cycle. Also, our enterprise

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accounts are less motivated by seasonal sales and promotions, and therefore are frequently difficult to finalize. As a result of these factors, our sales and deployment cycles are unpredictable. Our sales and deployment cycles 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 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, our event business is particularly unpredictable and subject to variation due to the short time-frame between when we learn of an opportunity and when the event occurs. Further, the majority of our product 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 or services 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 hosting and support 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

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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 two 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 these two 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, we would not be able to recognize revenue until these two distributors sell the inventory to the final end user which would have a material adverse effect on revenues in the period covered by that change.

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 in our non-higher education business and 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, 43% of our billings in 2012 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 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.

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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 and have a negative impact on our operations.

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, longer operating histories, greater name recognition, more employees and greater financial, technical, marketing, public relations and distribution resources than we have. In addition, new competitors with greater financial resources may arise through partnerships, distribution agreements, mergers, acquisitions or other types of transactions at any time. In particular, large companies have begun to make investments in and/or partner with smaller companies to enter the lecture capture market. We encounter competition with respect to different aspects of our solution from a variety of sources including:

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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.

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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 a given 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 desktop tools are prevalent on many campuses, these three factors limit its practicality for campus-wide adoption.

The competitive environment may require us to make changes in our products, pricing, licensing, services, or marketing to maintain and extend our current technology. Price concessions or the emergence of other pricing, licensing, and distribution strategies or technology solutions of competitors may reduce our revenue, margins or market share. Other changes we have to make in response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners, release products and enhancements before they are thoroughly tested or result in customer dissatisfaction, any of which could harm our operating results and stock price.

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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. If our use of open-source is challenged and construed unfavorably, our operating results could be adversely impacted.

We use open source software in our application suite. Although we monitor our use of open source software closely, the terms of many open source licenses have not been interpreted by United States courts, and there is risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to re-engineer our technology or to discontinue offering all or a portion of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

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

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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.

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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 release or market acceptance of our products, or otherwise adversely impact our relationships with our customers

Cause us to allocate valuable engineering resources to fix our existing products, which may cause us to allocate fewer resources toward developing new products, or toward adding features to our existing 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 have developed a lower cost desktop software product to better address that market segment. Our desktop software product has more limited features compared to our existing products. While we believe we can preserve the market for our full-featured products, release of our desktop software product 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. We may seek additional patents in the future. However, it is possible that:

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

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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 four 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, particularly our Chief Executive Officer. Most of 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

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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.

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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 25% to 27% of our total billings in each of the past two 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 or operations;

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.

difficulty in complying with international employment related requirements

Our operating results may fluctuate due to our investment in Mediasite KK.

We currently own approximately 23% of the common stock of Mediasite KK, our Japanese affiliate. Because our ownership interest exceeds 20%, our investment is accounted for under the equity method of accounting. This method requires us to record 23% of Mediasite KK's income or loss each quarter. However, due to our less-than-majority interest, we do not exercise control over Mediasite KK's operations. Therefore, a substantial portion of our overall profits and losses have been and will continue to be subject to events over which we have little control. If equity income had not been recorded, we would have incurred a loss of \$263 thousand, rather than a profit of \$157 thousand.

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.

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, 2012, we had less than 1 thousand of outstanding warrants and 846 thousand of outstanding stock options granted under our stock option plans, 555 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

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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 or overseas 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. An acquisition could expose us to unexpected liabilities, regulations or costs, including tax or other regulatory items impacting repatriation of profits. 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 re