SEACOAST BANKING CORP OF FLORIDA
Form 4
July 10, 2007

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
CROOK MICHAEL

(Last) (First) (Middle)

SEACOAST BANKING CORP. OF FLORIDA, P.O. BOX 9012

(Street)

STUART, FL 34995

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SEACOAST BANKING CORP OF FLORIDA [SBCF]

3. Date of Earliest Transaction (Month/Day/Year)
07/09/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/09/2007		L	V	39.1677	A	$ 22.04	5,608.3029	D (1)	
Common Stock	07/09/2007		A		151.5741	A	$ 22.1284	5,759.877	D (1)	
Common Stock								5,172.58	D (2)	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CROOK MICHAEL SEACOAST BANKING CORP. OF FLORIDA P.O. BOX 9012 STUART, FL 34995	X			

Signatures

Sharon Mehl as Power of Attorney for T. Michael Crook	07/10/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Held in Seacoast's Non-Employee Directors Deferred Compensation Plan

(2) Held in Trust

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Gross margin

20,060 18,844 17,911 15,411 14,246

Operating expenses

20,698 18,735 17,633 15,138 16,724

Income (loss) from operations

(638) 109 278 273 (2,478)

Equity in earnings from investment in Mediasite KK

209 420

Other expense, net

(123) (132) (310) (170) (25)

Provision for income taxes

(240) (240) (211) (225) (142)

Net income (loss)

$(792) $157 $(243) $(122) $(2,645)

Basic net income (loss) per common share

$ (0.20) $ 0.04 $ (0.06) $ (0.03) $ (0.74)

Diluted net income (loss) per common share

$(0.20) $0.04 $(0.06) $(0.03) $(0.74)

Weighted average common shares:

- Basic

3,932,692 3,857,161 3,748,840 3,617,423 3,598,040

- Diluted

3,932,692 3,907,888 3,748,840 3,617,423 3,598,040 **Balance Sheet Data at September 30: 2013 2012 2011 2010 2009**

Cash and cash equivalents

$3,482 $4,478 $5,515 $3,358 $2,598

Working capital

2,575 3,332 3,083 1,442 (344)

Total assets

24,333 22,821 21,840 18,267 16,173

Long-term liabilities

	3,585	3,748	3,072	3,202	1,977
Stockholders equity					
	10,704	10,539	9,261	7,137	6,601

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

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

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

Overview

Sonic Foundry, Inc. is a technology leader in the emerging web communications marketplace, providing video content management and distribution for education, business and government. Using the Mediasite webcasting platform and webcast services of the Company s events team, the Company empowers our customers to advance how they share knowledge online, using video webcasts to bridge time and distance, enhance learning outcomes and improve performance.

Critical Accounting Policies

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

Revenue recognition, allowance for doubtful accounts and reserves;

Impairment of long-lived assets;

Valuation allowance for net deferred tax assets;

Accounting for stock-based compensation; and

Capitalized software development costs.

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Revenue Recognition, Allowance for Doubtful Accounts and Reserves

General

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

Products

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

Services

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

Revenue Arrangements that Include Multiple Elements

Sales of software, with or without installation, training, and post customer support fall within the scope of the software revenue recognition rules. Under the software revenue recognition rules, the fee from a multiple-deliverable arrangement is allocated to each of the undelivered elements based upon vendor-specific objective evidence (VSOE), which is limited to the price charged when the same deliverable is sold separately, with the residual value from the arrangement allocated to the delivered element. The portion of the fee that is allocated to each deliverable is then

recognized as revenue when the criteria for revenue recognition are met with respect to that deliverable. If VSOE does not exist for all of the undelivered elements, then all revenue from the arrangement is typically deferred until all elements have been delivered to the customer. All revenue arrangements, with the exception of hosting contracts, entered into prior to October 1, 2010 and the sale of all software-only products and associated services have been accounted for under this guidance.

In the case of the Company s hardware products with embedded software, the Company has determined that the hardware and software components function together to deliver the product s essential functionality, and therefore, the revenue from the sale of these products is accounted for under the revenue recognition rules for tangible products whereby the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence (TPE) if VSOE is not

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available, and best estimate of selling price (ESP) if neither VSOE nor TPE are available. TPE is the price of the Company s or any competitor s largely interchangeable products or services in stand-alone sales to similarly situated customers. ESP is the price at which the Company would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors. All revenue arrangements negotiated after September 30, 2010, excluding the sale of all software-only products and associated services, have been accounted for under this guidance.

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

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

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

The Company also offers hosting services bundled with events services. The Company uses VSOE to establish relative selling prices for its events services. The Company recognizes events revenue when the event takes place and recognizes the hosting revenue over the term of the hosting agreement. The total amount of the arrangement is allocated to each element based on the relative selling price method.

Reserves

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

Credit Evaluation and Allowance for Doubtful Accounts

We assess the realization of our receivables by performing ongoing credit evaluations of our customers financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. Our reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information is

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received. Our reserves are also based on amounts determined by using percentages applied to certain aged receivable categories. These percentages are determined by a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. Allowance for doubtful accounts for accounts receivable was $90,000 at September 30, 2013 and $85,000 at September 30, 2012.

Impairment of long-lived assets

We assess the impairment of goodwill on an annual basis or whenever events or changes in circumstances indicate that the fair value of these assets is less than the carrying value. In fiscal 2012 with the adoption of ASU 2011-08, Testing Goodwill for Impairment , we first assessed qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Using the qualitative assessment, we determined that the fair value of goodwill is more likely than not greater than its carrying amount thus step two was not deemed necessary to perform. In fiscal 2013, we performed the two-step goodwill test and determined that the fair value of goodwill is more than the carrying value. The Company has recognized no impairment charges as of September 30, 2013.

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

Long-lived assets and intangible assets other than goodwill are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset.

Valuation allowance for net deferred tax assets

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

Accounting for stock-based compensation

The Company uses a lattice valuation model to account for all stock options granted. The lattice valuation model provides a flexible analysis to value options because of its ability to incorporate inputs that change over time, such as actual exercise behavior of option holders. The Company uses historical data to estimate the option exercise and employee departure behavior in the lattice valuation model. Expected volatility is based on historical volatility of the

Company s stock. The Company considers all employees to have similar exercise behavior and therefore has not identified separate homogenous groups for valuation. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods the options are expected to be outstanding is based on the U.S. Treasury yields in effect at the time of grant. Forfeitures are based on actual behavior patterns.

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Capitalized Software Development Costs

Software development costs incurred in conjunction with product development are charged to research and development expense until technological feasibility is established. Thereafter, until the product is released for sale, software development costs are capitalized and reported at the net realizable value of the related product. Typically the period between achieving technological feasibility of the Company s products and the general availability of the products has been short. Consequently, software development costs qualifying for capitalization are typically immaterial and are generally expensed to research and development costs. During 2013, the Company s My Mediasite product release required software capitalization since there was a longer period between technological feasibility and the general availability of the product and the development costs were material. Upon product release, the amortization of software development costs is determined annually as the greater of the amount computed using the ratio of current gross revenues for the products to their total of current and anticipated future gross revenues or the straight-line method over the estimated economic life of the products, expected to be three years. Amortization expense of software development costs of $75 thousand at September 30, 2013 is included in Cost of Revenue Product. The amount of capitalized external and internal development costs is $533 thousand for the year ended September 30, 2013. There were no development costs capitalized in period ended September 30, 2012.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this ASU provide guidance for the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance is not expected to have an impact on the Company.

Accounting standards that have been issued but are not yet effective by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company s consolidated financial statements upon adoption.

RESULTS OF OPERATIONS

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

Revenue

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

Revenue in fiscal 2013 totaled $27.8 million, compared to $26.1 million in fiscal 2012, an increase of 6%. Revenue consisted of the following:

Product revenue from the sale of Mediasite recorder units and server software increased from $12.4 million in fiscal 2012 to $13.6 million in fiscal 2013. The product revenue growth is primarily related to an increase in discounted upgrade recorders sold to customers whose product had reached the end of hardware warranty eligibility (refresh units).

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	2013	2012
Units sold	1,458	1,280
Rack to mobile ratio	2.0 to 1	2.4 to 1
Average sales price, excluding support (000 s)	$9.2	$9.4
Refresh Units	573	434

Services revenue represents the portion of fees charged for Mediasite customer support contracts amortized over the length of the contract, typically 12 months, as well as training, installation, event and content hosting services. Services revenue increased from $13.4 million in fiscal 2012 to $13.9 million in fiscal 2013 due primarily to an increase in hosting contracts and support contracts on Mediasite recorder units. At September 30, 2013 $7.1 million of revenue was deferred, of which we expect to recognize $6.5 million in the next twelve months, including approximately $2.5 million in the quarter ending December 31, 2013. At September 30, 2012, $5.6 million of revenue was deferred.

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

Gross Margin

Total gross margin in fiscal 2013 was $20.1 million or 72% compared to $18.8 million or 72% in fiscal 2012. Gross margin was positively affected by operational efficiencies in recorder and services costs and a decrease in direct and outsourced event labor costs with lower markups for services which the Company does not provide, such as closed captioning. These improvements were partially offset by a greater volume of discounted upgrade units for customers whose product had reached end of hardware warranty eligibility and by an increase in high definition material cost due to customer demand. The significant components of cost of revenue include:

Material and freight costs for the Mediasite recorders. Costs for fiscal 2013 Mediasite recorder hardware and other costs totaled $5.0 million compared to $4.7 million in fiscal 2012. Freight costs were $336 thousand and labor and allocated costs were $939 thousand in fiscal 2013 compared to $369 thousand and $863 thousand, respectively, in fiscal 2012.

Services costs. Staff wages and other costs allocated to cost of service revenues were $1.5 million in fiscal 2013 compared to $1.4 million fiscal 2012, resulting in gross margin on services of 89% in fiscal 2013 and 90% in fiscal 2012.

The Company expects the gross margin percentage to remain consistent or slightly increase in fiscal 2014 as total revenue increases and as the Company benefits from further manufacturing efficiencies anticipated in fiscal 2014.

Operating Expenses

Selling and Marketing Expenses

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

Selling and marketing expense increased $1.2 million, or 10%, from $11.8 million in fiscal 2012 to $13.1 million in fiscal 2013. Increases in the major categories include:

Salaries, incentive compensation, and benefits increased $703 thousand over the prior year due to higher staff levels in fiscal 2013 compared to fiscal 2012.

Costs also increased by $232 thousand as a result of higher stock compensation expense, bonus and depreciation expense.

Tradeshow and travel expense increased by $265 thousand due to an increase in the number of tradeshows.

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At September 30, 2013 we had 75 employees, excluding interns, in Selling and Marketing, an increase from 70 employees at September 30, 2012. We anticipate minimal growth in Selling and Marketing headcount in fiscal 2014.

General and Administrative Expenses

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

G&A expenses increased from $2.8 million in fiscal 2012 to $3.3 million in fiscal 2013.

Increase in compensation and benefits of $176 thousand related to an increase in headcount.

Professional services increase of $312 thousand, mainly due to legal costs and consulting fees related to our investment in Mediasite KK.

At September 30, 2013 we had 7 full-time employees in G&A, an increase from 6 full-time employees at September 30, 2012. We do not anticipate growth in G&A headcount in fiscal 2014.

Product Development Expenses

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

R&D expenses increased $196 thousand, or 5%, from $4.1 million in fiscal 2012 to $4.3 million in fiscal 2013. Some significant differences include:

Increase in compensation and benefits of $60 thousand related to an increase in headcount net of $269 thousand of software development labor capitalized during fiscal 2013. In addition to internal labor, $264 of third party design and testing costs were capitalized. No software development costs, including internal labor or third party design and testing costs, were capitalized in fiscal 2012.

Costs also increased by $133 thousand as a result of higher stock compensation expense, bonus and depreciation expense.

At September 30, 2013 we had 36 employees, excluding interns, in Product Development compared to 33 employees at September 30, 2012. The increase in fiscal year 2013 headcount will result in an additional increase in R&D compensation cost in fiscal 2014 as the full year effect of the current level of headcount is realized. We do not anticipate growth in R&D headcount in fiscal 2014. Fiscal 2013 software development costs of $533 qualified for capitalization. No fiscal 2012 software development efforts qualified for capitalization.

Other Income (Expense), Net

Under the equity method of accounting, we record our proportional share of earnings in Mediasite KK. We currently own approximately 26% of their common stock as compared to 23% as of the end of fiscal 2012. We recorded $209 thousand of net equity in earnings during fiscal 2013 and $420 thousand during fiscal 2012. The change is due to variability in profitability and recording of increased ownership percentage in the investee. Other expense primarily consists of interest costs related to outstanding debt. Other income is primarily interest income from overnight investment vehicles. Lower interest rates led to a decrease in interest income from $2 thousand in fiscal 2012 to $1 thousand in fiscal 2013.

Provisions Related to Income Taxes

The Company records a non-cash deferred tax liability related to goodwill acquired in 2001. The related income tax expense was $240 thousand for both fiscal 2013 and fiscal 2012.

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LIQUIDITY AND CAPITAL RESOURCES

We funded our operations primarily with cash generated from operations in fiscal 2013. On September 30, 2013 and 2012, we had cash and cash equivalents of $3.5 million and $4.5 million, respectively.

Cash provided by operating activities totaled $1.0 million in fiscal 2013 and $350 thousand in fiscal 2012, an increase of $650 thousand. Cash provided in fiscal 2013 was impacted by working capital and other changes including the positive effects of a $1.5 million increase in unearned revenue, $656 thousand of stock based compensation, $1.1 million of depreciation expense, $240 thousand of deferred taxes, and a $176 thousand increase in accounts payable, accrued liabilities and other long-term liabilities. These were partially offset by the negative effects of $394 thousand increase in inventory, a $1.3 million increase in accounts receivable, $209 thousand of equity in earnings from investment in Mediasite KK and $792 thousand net loss. Cash provided in fiscal 2012 was impacted by working capital and other changes including the positive effects of $226 thousand decrease in accounts receivable, $742 thousand of stock based compensation, $855 thousand of depreciation expense and $240 thousand of deferred taxes. These were partially offset by the negative effects of a $517 thousand increase in inventory, a $385 thousand decrease in unearned revenue, a $601 thousand decrease in accounts payable, accrued liabilities and other long-term liabilities and $420 thousand of equity in earnings from investment in Mediasite KK.

Cash used in investing activities totaled $1.7 million in fiscal 2013 compared to cash used in investing activities of $1.5 million in fiscal 2012. In fiscal year 2013, $533 thousand was used in capitalization of software development costs. The remainder was due to purchases of property and equipment. Investing activities for fiscal 2012 were all due to purchases of property and equipment.

Cash used in financing activities in fiscal 2013 totaled $314 thousand compared to $69 thousand provided in fiscal 2012. Cash used in fiscal 2013 was due primarily to $839 thousand of cash used for payments on notes payable and capital leases. This was partially offset by $523 thousand of proceeds from exercise of common stock options and issuance of common stock. Cash provided in fiscal 2012 was due primarily to proceeds from exercise of common stock options and issuance of common stock of $379 thousand and $1.2 million of proceeds from notes payable. This was mostly offset by $1.5 million of cash used for payments on notes payable and capital leases.

The Company believes its cash position is adequate to accomplish its business plan through at least the next twelve months, including the cash outlays related to the two international acquisitions of Mediasite KK (if it closes) and MediaMission. We will likely evaluate operating or capital lease opportunities to finance equipment purchases in the future and anticipate utilizing the Company s revolving line of credit to support working capital needs. We may also seek additional equity financing, or issue additional shares previously registered in our available shelf registration, although we currently have no plans to do so.

On June 27, 2011, the Company and its wholly owned subsidiary, Sonic Foundry Media Systems, Inc. (the Companies) entered into the Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank (the Second Amended Agreement). Under the Second Amended Agreement, the revolving line of credit has a

maximum principal amount of $3,000,000. Interest accrues on the revolving line of credit at the per annum rate of one percent (1.0%) above the Prime Rate (as defined), provided that Sonic Foundry maintains an Adjusted Quick Ratio (as defined) of greater than 2.0 to 1.0, or one-and-one half percent (1.5%) above the Prime Rate, if Sonic Foundry does not maintain an Adjusted Quick Ratio of greater than 2.0 to 1.0. The Second Amended Agreement does not provide for a minimum interest rate on the revolving loan. The Second Amended Agreement also provides for an increase in the advance rate on domestic receivables from 75% to 80%, and extends the facility maturity date to October 1, 2013. Under the Second Amended Agreement, the existing term loan will continue to accrue interest at a per annum rate equal to the greater of (i) one percentage point (1.0%) above Silicon Valley Bank s prime rate; or (ii) eight and three quarters percent (8.75%). In addition, a new term loan can be issued in multiple draws provided that the total term loan from Silicon Valley Bank shall not exceed $2,000,000 and provided further that total term debt shall not exceed $2,400,000. Under the Second Amended Agreement, any new draws on the term loan will accrue interest at a per annum rate equal to the Prime Rate plus three and three quarters percent (3.75%), or three-and-one quarter percent (3.25%) above the Prime Rate if Sonic Foundry maintains an Adjusted Quick Ratio of greater than 2.0 to 1.0. The Second Amended Agreement does not provide for a minimum interest rate on the new

Sonic Foundry, Inc.

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term loan. Each draw on the new term loan will be amortized over a 36-month period. The Second Amended Agreement also requires Sonic Foundry to continue to comply with certain financial covenants, including covenants to maintain an Adjusted Quick Ratio (as defined) of at least 1.75 to 1.00 and Debt Service Coverage Ratio of at least 1.25 to 1.00, the latter of which will be waived if certain funds are reserved against the availability under the revolving line of credit.

On May 31, 2013, the Company entered into a First Amendment to the Second Amended and Restated Loan and Security Agreement (the First Amendment) with Silicon Valley Bank. Under the First Amendment: (i) the Revolving Loan Maturity Date (as defined) was extended from October 1, 2013 to October 1, 2015, (ii) the interest rate on the revolving line of credit was decreased so that interest will accrue at the per annum rate of three quarters of one percent (0.75 %) above the Prime Rate (as defined), provided that Sonic Foundry maintains an Adjusted Quick Ratio (as defined) of greater than 2.0 to 1.0, or one-and-one quarter percent (1.25%) above the Prime Rate, if Sonic Foundry does not maintain an Adjusted Quick Ratio of greater than 2.0 to 1.0, (iii) the interest rate on the Unused Revolving Loan Facility Fee (as defined) was decreased to seventeen and one-half hundredths of one percent (0.175%), and (iv) the restriction on the ability of Sonic Foundry to repurchase up to $1,000,000 of its common stock was removed.

On May 31, 2013, the Company s Board of Directors authorized a $1 million common stock repurchase program. Under the program, the Company s common shares may be repurchased in open market transactions or in privately negotiated transactions. The exact amount and timing of any purchases will depend on a number of factors, including trading price, trading volume and general market conditions. The repurchase program may be suspended or discontinued at any time. The Company has not repurchased any shares of its common stock as of September 30, 2013.

At September 30, 2013, a balance of $767 thousand was outstanding on the term loans with Silicon Valley Bank, with an effective interest rate of six-and-one half percent (6.5%), and no balance was outstanding on the revolving line of credit. At September 30, 2012, a balance of $1.4 million was outstanding on the term loans with Silicon Valley Bank and no balance was outstanding on the revolving line of credit. At September 30, 2013, there was $2.2 million available under this credit facility for advances. At September 30, 2013 the Company was in compliance with all covenants in the First Amendment to the Second Amended Agreement.

The Company enters into unconditional purchase commitments on a regular basis for the supply of Mediasite product. At September 30, 2013, the Company has an obligation to purchase $1.1 million of Mediasite product, which is not recorded on the Company s Consolidated Balance Sheet.

Contractual Obligations

The following summarizes our contractual obligations at September 30, 2013 and the effect those obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

Contractual Obligations:	Total	Less than 1 Year	Years 2-3	Years 4-5	Over 5 years
Product purchase commitments	$ 1,111	$ 1,111	$	$	$
Operating lease obligations	3,418	621	1,280	1,345	172
Capital lease obligations (a)	394	227	167		
Notes payable (a)	767	634	133		

(a) Includes fixed and determinable interest payments

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Sonic Foundry, Inc.

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For the Year Ended September 30, 2013

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Financial Instruments

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

Interest Rate Risk

Our cash equivalents, which consist of overnight money market funds, are subject to interest rate fluctuations, however, we believe this risk is minimal due to the short-term nature of these investments.

At September 30, 2013, all of our $767 thousand of debt outstanding is variable rate. We do not expect that an increase in the level of interest rates would have a material impact on our Consolidated Financial Statements. We monitor our positions with, and the credit quality of, the financial institutions that are party to any of our financial transactions.

Foreign Currency Exchange Rate Risk

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

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Sonic Foundry, Inc.

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For the Year Ended September 30, 2013

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Sonic Foundry, Inc.

We have audited the accompanying consolidated balance sheets of Sonic Foundry, Inc. and subsidiary (a Maryland corporation) (the Company) as of September 30, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, stockholders equity, and cash flows for each of the two years in the period ended September 30, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sonic Foundry, Inc. and subsidiary as of September 30, 2013 and 2012, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Milwaukee, Wisconsin

December 26, 2013

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Sonic Foundry, Inc.

Consolidated Balance Sheets

(in thousands except for share and per share data)

	September 30, 2013	September 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 3,482	$ 4,478
Accounts receivable, net of allowances of $90 and $85	6,885	5,578
Inventories	1,447	1,053
Prepaid expenses and other current assets	805	757
Total current assets	12,619	11,866
Property and equipment:		
Leasehold improvements	852	852
Computer equipment	5,296	3,851
Furniture and fixtures	581	865
Total property and equipment	6,729	5,568
Less accumulated depreciation and amortization	3,449	2,624
Net property and equipment	3,280	2,944
Other assets:		
Goodwill	7,576	7,576
Investment in Mediasite KK	385	420
Software development costs, net of amortization of $75	458	
Other intangibles, net of amortization of $135 and $180	15	15
Total assets	$ 24,333	$ 22,821
Liabilities and stockholders equity		
Current liabilities:		
Revolving line of credit	$	$
Accounts payable	1,513	1,604
Accrued liabilities	1,204	850
Unearned revenue	6,470	5,284
Current portion of capital lease obligations	223	129
Current portion of notes payable	634	667
Total current liabilities	10,044	8,534
Long-term portion of unearned revenue	648	349
Long-term portion of capital lease obligations	149	131
Long-term portion of notes payable	133	766

Other liabilities	445	532
Deferred tax liability	2,210	1,970
Total liabilities	13,629	12,282
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, authorized 500,000 shares; none issued		
5% Preferred stock, Series B, voting, cumulative, convertible, $.01 par value (liquidation preference at par), authorized 1,000,000 shares, none issued		
Common stock, $.01 par value, authorized 10,000,000 shares; 3,999,634 and 3,909,040 shares issued and 3,986,918 and 3,896,324 shares outstanding	40	39
Additional paid-in capital	190,653	189,459
Accumulated deficit	(179,556)	(178,764)
Accumulated other comprehensive loss	(238)	
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)
Total stockholders equity	10,704	10,539
Total liabilities and stockholders equity	$ 24,333	$ 22,821

See accompanying notes

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Sonic Foundry, Inc.

Consolidated Statements of Operations

(in thousands except for share and per share data)

	Years Ended September 30, 2013	Years Ended September 30, 2012
Revenue:		
Product	$ 13,588	$ 12,385
Services	13,933	13,409
Other	235	296
Total revenue	27,756	26,090
Cost of revenue:		
Product	6,215	5,883
Services	1,481	1,363
Total cost of revenue	7,696	7,246
Gross margin	20,060	18,844
Operating expenses:		
Selling and marketing	13,079	11,841
General and administrative	3,343	2,815
Product development	4,276	4,079
Total operating expenses	20,698	18,735
Income (loss) from operations	(638)	109
Equity in earnings from investment in Mediasite KK	209	420
Interest expense	(92)	(152)
Other income (expense), net	(31)	20
Total other income, net	86	288
Income (loss) before income taxes	(552)	397
Provision for income taxes	(240)	(240)
Net income (loss)	$ (792)	$ 157
Income (loss) per common share:		
Basic net income (loss) per common share	$ (0.20)	$ 0.04
Diluted net income (loss) per common share	$ (0.20)	$ 0.04

Weighted average common shares	Basic	3,932,692	3,857,161
Diluted		3,932,692	3,907,888

See accompanying notes

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Sonic Foundry, Inc.

Consolidated Statements of Comprehensive Loss

For the Year Ended September 30, 2013 and 2012

(in thousands)

	Years Ended September 30,	
	2013	**2012**
Net income (loss)	$ (792)	$ 157
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustment	(238)	
Total other comprehensive income (loss)	(238)	
Comprehensive loss	$ (1,030)	$ 157

See accompanying notes

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Sonic Foundry, Inc.

Consolidated Statements of Stockholders Equity

For the Year Ended September 30, 2013 and 2012

(in thousands)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Receivable for common stock issued	Treasury stock	Total
Balance, September 30, 2011	$ 38	$ 188,339	$ (178,921)	$	$ (26)	$ (169)	$ 9,261
Stock compensation		742					742
Issuance of common stock		134					134
Exercise of common stock warrants and options	1	244					245
Net income			157				157
Balance, September 30, 2012	39	189,459	(178,764)		(26)	(169)	10,539
Stock compensation		656					656
Issuance of common stock		75					75
Exercise of common stock options	1	447					448
Foreign currency translation adjustment				(238)			(238)
Equity method investment ownership changes		16					16
Net loss			(792)				(792)
Balance, September 30, 2013	$ 40	$ 190,653	$ (179,556)	$ (238)	$ (26)	$ (169)	$ 10,704

See accompanying notes

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Sonic Foundry, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Years Ended September 30, 2013	2012
Operating activities		
Net income (loss)	$ (792)	$ 157
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in earnings from investment in Mediasite KK	(209)	(420)
Amortization of other intangibles	20	75
Amortization of software development costs	75	
Depreciation and amortization of property and equipment	1,111	855
Provision for doubtful accounts	5	(5)
Deferred taxes	240	240
Stock-based compensation expense related to stock options	656	742
Changes in operating assets and liabilities:		
Accounts receivable	(1,312)	226
Inventories	(394)	(517)
Prepaid expenses and other assets	(48)	(17)
Accounts payable, accrued liabilities and other long-term liabilities	176	(601)
Unearned revenue	1,485	(385)
Net cash provided by operating activities	1,013	350
Investing activities		
Capitalization of software development costs	(533)	
Purchases of property and equipment	(1,162)	(1,456)
Net cash used in investing activities	(1,695)	(1,456)
Financing activities		
Proceeds from notes payable		1,200
Payments on notes payable	(666)	(1,390)
Payments of loan fees	(20)	(20)
Proceeds from issuance of common stock	75	134
Proceeds from exercise of common stock warrants and options	448	245
Dividends from investment in Mediasite KK	22	
Payments on capital leases	(173)	(100)
Net cash (used in) provided by financing activities	(314)	69
Net decrease in cash and cash equivalents	(996)	(1,037)
Cash and cash equivalents at beginning of period	4,478	5,515

Cash and cash equivalents at end of period	$	3,482	$	4,478
Supplemental cash flow information:				
Interest paid	$	92	$	120
Non-cash transactions:				
Property and equipment financed by accounts payable, accrued liabilities or capital lease		345		752
Comprehensive loss attributable to equity method investment in MSKK		238		

See accompanying notes

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Sonic Foundry, Inc.

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For the Year Ended September 30, 2013

1. Basis of Presentation and Significant Accounting Policies

Business

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Sonic Foundry Media Systems, Inc. All significant intercompany transactions and balances have been eliminated.

Under the equity method of accounting, the Company s investment in unconsolidated affiliates are initially recorded as an investment in the stock of an investee at cost and are adjusted on a quarterly basis for the carrying amount of the investment to recognize the investor s share of changes in the net assets of the investee after the date of the initial investment.

Use of Estimates

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

Revenue Recognition

General

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

Products

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

Services

The Company sells support and content hosting contracts to our customers, typically one year in length, and records the related revenue ratably over the contractual period. Our support contracts cover phone and electronic technical support availability over and above the level provided by our distributors, software upgrades on a when and if available basis, advance hardware replacement and an extension of the standard hardware warranty from 90 days to

Sonic Foundry, Inc.

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For the Year Ended September 30, 2013

one year. The manufacturers the Company contracts with to build the units provide a limited one-year warranty on the hardware. The Company also sells installation, training, event webcasting, and customer content hosting services. Revenue for those services is recognized when performed in the case of installation, training and event webcasting services. Service amounts invoiced to customers in excess of revenue recognized are recorded as deferred revenue until the revenue recognition criteria are met.

Revenue Arrangements that Include Multiple Elements

Sales of software, with or without installation, training, and post customer support fall within the scope of the software revenue recognition rules. Under the software revenue recognition rules, the fee from a multiple-deliverable arrangement is allocated to each of the undelivered elements based upon vendor-specific objective evidence (VSOE), which is limited to the price charged when the same deliverable is sold separately, with the residual value from the arrangement allocated to the delivered element. The portion of the fee that is allocated to each deliverable is then recognized as revenue when the criteria for revenue recognition are met with respect to that deliverable. If VSOE does not exist for all of the undelivered elements, then all revenue from the arrangement is typically deferred until all elements have been delivered to the customer. All revenue arrangements, with the exception of hosting contracts, entered into prior to October 1, 2010 and the sale of all software-only products and associated services have been accounted for under this guidance.

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

The selling prices used in the relative selling price allocation method are as follows: (1) the Company s products and services are based upon VSOE and (2) hardware products with embedded software, for which VSOE does not exist, are based upon ESP. The Company does not believe TPE exists for any of these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes ESP for hardware products with embedded software using a cost plus margin approach with consideration for market conditions, such as the

impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product and the Company s profit objectives. Management believes that ESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis. When a sales transaction includes deliverables that are divided between ASC Topic 605 and ASC Subtopic 985-605, the Company allocates the selling price using the relative selling price method whereas value is allocated using an ESP for software developed using a percent of list price approach. The other deliverables are valued using ESP or VSOE as previously discussed.

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

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

The Company also offers hosting services bundled with events services. The Company uses VSOE to establish relative selling prices for its events services. The Company recognizes events revenue when the event takes place and recognizes the hosting revenue over the term of the hosting agreement. The total amount of the arrangement is allocated to each element based on the relative selling price method.

Reserves

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

Shipping and Handling

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

Concentration of Credit Risk and Other Risks and Uncertainties

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

We assess the realization of our receivables by performing ongoing credit evaluations of our customers financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. Our reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information is received. Our reserves are also based on amounts determined by using percentages applied to certain aged receivable categories. These percentages are determined by a variety of factors including, but not limited to, current economic

trends, historical payment and bad debt write-off experience. Allowance for doubtful accounts for accounts receivable was $90,000 at September 30, 2013 and $85,000 at September 30, 2012.

We had billings for Mediasite product and support services as a percentage of total billings to one distributor of approximately 20% in 2013 and 18% in 2012 and to a second distributor of approximately 22% in 2013 and 25% in 2012. At September 30, 2013 and 2012, these two distributors represented 56% of total accounts receivable.

Currently all of our product inventory purchases are from 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 the contract manufacturers, a disruption of supply of component parts or completed products, even if short term, would have a material negative impact on our revenues. At September 30, 2013 and 2012, this supplier represented 34% and 60%, respectively, of total accounts payable. We also license technology

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from third parties that is embedded in our software. We believe there are alternative sources of similar licensed technology from other third parties that we could also embed in our software, although it could create potential programming related issues that might require engineering resources.

Cash and Cash Equivalents

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

Trade Accounts Receivable

The majority of the Company s accounts receivable are due from entities in, or distributors or value added resellers to, the education, corporate and government sectors. Credit is extended based on evaluation of a customer s financial condition and, generally, collateral is not required. Accounts receivable are typically due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered to be past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company s previous loss history, the customer s current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Interest is not accrued on past due receivables.

Inventory Valuation

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

Inventory consists of the following (in thousands):

	September 30,	
	2013	**2012**
Raw materials and supplies	$ 516	$ 216
Finished goods	931	837
	$ 1,447	$ 1,053

Capitalized Software Development Costs

Software development costs incurred in conjunction with product development are charged to research and development expense until technological feasibility is established. Thereafter, until the product is released for sale, software development costs are capitalized and reported at the net realizable value of the related product. Typically the period between achieving technological feasibility of the Company s products and the general availability of the products has been short. Consequently, software development costs qualifying for capitalization are typically immaterial and are generally expensed to research and development costs. During 2013, the Company s My Mediasite product release required software capitalization since there was a longer period between technological feasibility and the general availability of the product. Upon product release, the amortization of software development costs is determined annually as the greater of the amount computed using the ratio of current gross revenues for the products to their total of current and anticipated future gross revenues or the straight-line method over the estimated economic life of the products, expected to be three years. Amortization expense of software development costs of $75 thousand at September 30, 2013 is included in Cost of Revenue Product. The amount of capitalized external and internal development costs is $533 thousand for the year ended September 30, 2013. There were no development costs capitalized in period ended September 30, 2012.

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For the Year Ended September 30, 2013

Equity in earnings from investment in Mediasite KK

The Company s investment in Mediasite KK is accounted for under the equity method of accounting using a one quarter timing lag. The Company s current ownership percentage is approximately 26% of their common stock as compared to 23% as of the end of fiscal 2012. The Company recorded equity in earnings of $209 thousand and $420 thousand for the years ended September 30, 2013 and September 30, 2012, respectively. The recorded value of this investment, net of foreign currency translation adjustment, is $385 thousand as of September 30, 2013 and $420 thousand as of September 30, 2012. The Company also received a $22 thousand dividend from Mediasite KK during the year ended September 30, 2013.

Property and Equipment

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

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

Impairment of Long-Lived Assets

We assess the impairment of goodwill on an annual basis or whenever events or changes in circumstances indicate that the fair value of these assets is less than the carrying value. In fiscal 2012 with the adoption of ASU 2011-08, Testing Goodwill for Impairment , we first assessed qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Using the qualitative assessment, we determined that the fair value of goodwill is more likely than not greater than its carrying amount thus step two was not deemed necessary to perform. In fiscal 2013, we performed the two-step goodwill test and determined that the fair value of goodwill is more than the carrying value. The Company has recognized no impairment charges as of September 30, 2013 and September 30, 2012.

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

Long-lived assets and intangible assets other than goodwill are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. For the years ended September 30, 2013 and 2012, no events or changes in circumstances occurred that required this analysis.

Comprehensive Income (Loss)

Comprehensive income (loss) includes disclosure of financial information that historically has not been recognized in the calculation of net income. Our comprehensive income (loss) encompasses net income (loss) and foreign currency translation. Assets and liabilities of international operations that have a functional currency that is not in U.S. dollars are translated into U.S. dollars at year-end exchange rates, and revenue and expense items are translated using weighted average exchange rates. Any adjustments arising on translation are included in shareholders equity as an element of accumulated other comprehensive income (loss).

Advertising Expense

Advertising costs included in selling and marketing, are expensed when the advertising first takes place. Advertising expense was $238 and $261 thousand for years ended September 30, 2013 and 2012, respectively.

Research and Development Costs

Research and development costs are expensed in the period incurred, unless they meet the criteria for capitalized software development costs.

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Income Taxes

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

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

Fair Value of Financial Instruments

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

Stock-Based Compensation

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

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

	Years Ending September 30,	
	2013	**2012**
Expected life	4.7 4.8 years	4.7 4.8 years
Risk-free interest rate	0.35%-0.61%	0.4%

Expected volatility	46.8%-49.3%	51.4% - 64.0%
Expected forfeiture rate	11.8%-13.0%	12.0%-13.1%
Expected exercise factor	1.36-1.37	1.34 1.36
Expected dividend yield	0%	0%

Per Share Computation

Basic earnings per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less shares that may be repurchased, and excludes any dilutive effects of options and warrants. In periods where the Company reports net income, diluted net income per share is computed using common equivalent shares related to outstanding options and warrants to purchase common stock. The numerator for the calculation of basic and diluted earnings per share is net income (loss). The following table sets forth the computation of basic and diluted weighted average shares used in the earnings per share calculations:

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	Years Ending September 30,	
	2013	2012
Denominator for basic earnings per share		
- weighted average common shares	3,932,692	3,857,161
Effect of dilutive options and warrants (treasury method)		50,727
Denominator for diluted earnings per share		
- adjusted weighted average common shares	3,932,692	3,907,888
Options and warrants outstanding during each year, but not included in the computation of diluted earnings per share because they are antidilutive	997,045	576,863

Reclassifications

Reclassifications have been made to the September 30, 2012 notes to the financial statements to conform to the September 30, 2013 presentation.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this ASU provide guidance for the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance is not expected to have an impact on the Company

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

2. Commitments

The Company leases certain equipment under capital lease agreements expiring through June 2016. Such leases are included in fixed assets with a cost of $660 thousand and accumulated depreciation of $184 thousand at September 30, 2013. Minimum lease payments, including principal and interest, are summarized in the table below.

Fiscal Year (in thousands)	Capital
2014	$ 227
2015	121
2016	46
Total payments	394
Less interest	(22)
Total	$ 372

The Company leases certain facilities and equipment under operating lease agreements expiring at various times through December 31, 2018. Total rent expense on all operating leases was approximately $581 thousand and $526 thousand for the years ended September 30, 2013 and 2012, respectively.

In November 2011, the Company occupied office space related to a lease agreement entered into on June 28, 2011. The lease term is from November 2011 through December 2018. The lease includes a tenant improvement allowance of $613 thousand that was recorded as a leasehold improvement liability and is being amortized as a credit to rent expense on a straight-line basis over the lease term. At September 30, 2013, the unamortized balance is $445 thousand.

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

Fiscal Year (in thousands)	**Operating**
2014	$ 621
2015	632
2016	648
2017	664
2018	681
Thereafter	172
Total	$ 3,418

The Company enters into unconditional purchase commitments on a regular basis for the supply of Mediasite product. The Company has an obligation to purchase $1.1 million at September 30, 2013, which is not recorded on the Company s Consolidated Balance Sheet.

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

3. Credit Arrangements

On June 27, 2011, the Company and its wholly owned subsidiary, Sonic Foundry Media Systems, Inc. (the Companies) entered into the Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank (the Second Amended Agreement). Under the Second Amended Agreement, the revolving line of credit has a maximum principal amount of $3,000,000. Interest accrues on the revolving line of credit at the per annum rate of one percent (1.0%) above the Prime Rate (as defined), provided that Sonic Foundry maintains an Adjusted Quick Ratio (as defined) of greater than 2.0 to 1.0, or one-and-one half percent (1.5%) above the Prime Rate, if Sonic Foundry does not maintain an Adjusted Quick Ratio of greater than 2.0 to 1.0. The Second Amended Agreement does not provide for a minimum interest rate on the revolving loan. The Second Amended Agreement also provides for an increase in the advance rate on domestic receivables from 75% to 80%, and extends the facility maturity date to October 1, 2013. Under the Second Amended Agreement, the existing term loan will continue to accrue interest at a per annum rate equal to the greater of (i) one percentage point (1.0%) above Silicon Valley Bank s prime rate; or (ii) eight and three quarters percent (8.75%). In addition, a new term loan can be issued in multiple draws provided that the total term loan from Silicon Valley Bank shall not exceed $2,000,000 and provided further that total term debt shall not exceed $2,400,000. Under the Second Amended Agreement, any new draws on the term loan will accrue interest at a per

annum rate equal to the Prime Rate plus three and three quarters percent (3.75%), or three-and-one quarter percent (3.25%) above the Prime Rate if Sonic Foundry maintains an Adjusted Quick Ratio of greater than 2.0 to 1.0. The Second Amended Agreement does not provide for a minimum interest rate on the new term loan. Each draw on the new term loan will be amortized over a 36-month period. The Second Amended Agreement also requires Sonic Foundry to continue to comply with certain financial covenants, including covenants to maintain an Adjusted Quick Ratio (as defined) of at least 1.75 to 1.00 and Debt Service Coverage Ratio of at least 1.25 to 1.00, the latter of which will be waived if certain funds are reserved against the availability under the revolving line of credit.

On May 31, 2013, the Company entered into a First Amendment to the Second Amended and Restated Loan and Security Agreement (the First Amendment) with Silicon Valley Bank. Under the First Amendment: (i) the Revolving Loan Maturity Date (as defined) was extended from October 1, 2013 to October 1, 2015, (ii) the interest

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rate on the revolving line of credit was decreased so that interest will accrue at the per annum rate of three quarters of one percent (0.75 %) above the Prime Rate (as defined), provided that Sonic Foundry maintains an Adjusted Quick Ratio (as defined) of greater than 2.0 to 1.0, or one-and-one quarter percent (1.25%) above the Prime Rate, if Sonic Foundry does not maintain an Adjusted Quick Ratio of greater than 2.0 to 1.0, (iii) the interest rate on the Unused Revolving Loan Facility Fee (as defined) was decreased to seventeen and one-half hundredths of one percent (0.175%), and (iv) the restriction on the ability of Sonic Foundry to repurchase up to $1,000,000 of its common stock was removed.

At September 30, 2013, a balance of $767 thousand was outstanding on the term loans with Silicon Valley Bank, with an effective interest rate of six-and-one half percent (6.5%), and no balance was outstanding on the revolving line of credit. At September 30, 2012, a balance of $1.4 million was outstanding on the term loans with Silicon Valley Bank and no balance was outstanding on the revolving line of credit. At September 30, 2013, there was $2.2 million available under this credit facility for advances. At September 30, 2013 the Company was in compliance with all covenants in the First Amendment to the Second Amended Agreement.

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

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

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

Fiscal Year (in thousands)	
2014	$ 634
2015	133
Total	$ 767

4. Common Stock Warrants

The Company has issued restricted common stock purchase warrants to various consultants and other third parties. Each warrant represents the right to purchase one share of common stock. The Company did not grant any warrants in fiscal 2013 or fiscal 2012. All such warrants are either valued and expensed in full at the date of grant or valued at the date of grant and deferred over the term of the relevant contract for services. There are no outstanding warrants at

September 30, 2013.

5. Stock Options and Employee Stock Purchase Plan

On March 5, 2009, Stockholders approved adoption of the 2009 Stock Incentive Plan (the 2009 Plan). The 2009 Plan, beginning October 1, 2009, replaced two former employee stock option plans that terminated coincident with the effectiveness of the 2009 Plan. On March 7, 2012, Stockholders approved an amendment to increase the number of shares of common stock subject to this plan by 600,000 and to increase the number of shares for the directors stock option plan by 50,000 shares. The Company maintains a directors stock option plan under which options may be issued to purchase up to an aggregate of 100,000 shares of common stock. Each non-employee director, who is re-elected or who continues as a member of the board of directors on each annual meeting date and on each subsequent meeting of Stockholders, will be granted options to purchase 2,000 shares of common stock under the directors plan, or at other times or amounts at the discretion of the Board of Directors.

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

The Company has applied a graded (tranche-by-tranche) attribution method and expenses share-based compensation on an accelerated basis over the vesting period of the share award, net of estimated forfeitures.

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

	Qualified Employee Stock Option Plans	Director Stock Option Plans
Shares available for grant at September 30, 2011	151,883	7,000
Stockholder approval to increase shares	600,000	50,000
Options granted	(180,350)	(12,500)
Options forfeited	30,393	
Shares available for grant at September 30, 2012	601,926	44,500
Options granted	(297,600)	(12,500)
Options forfeited	79,803	4,000
Shares available for grant at September 30, 2013	384,129	36,000

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

	Years Ended September 30, 2013		2012	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	846,280	$ 11.28	785,547	$ 11.52
Granted	310,100	7.60	192,850	9.03

Exercised	(75,532)	5.93	(42,499)	5.75
Forfeited	(83,803)	11.22	(89,618)	11.12
Outstanding at end of year	997,045	$ 10.54	846,280	$ 11.28
Exercisable at end of year	566,440		555,135	
Weighted average fair value of options granted during the year	$ 2.57		$ 3.45	

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The options outstanding at September 30, 2013 have been segregated into four ranges for additional disclosure as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding at September 30, 2013	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at September 30, 2013	Weighted Average Exercise Price
$ 4.50 to $9.90	678,330	7.9	$ 7.73	281,022	$ 7.28
10.10 to 14.83	167,892	4.7	13.21	144,026	13.22
15.00 to 19.40	109,315	4.6	15.95	99,884	16.02
21.40 to 46.90	41,508	2.8	30.18	41,508	34.41
	997,045			566,440	

At September 30, 2013, there was $297 thousand of total unrecognized compensation cost related to non-vested stock-based compensation, including $75 thousand of estimated forfeitures. The cost is expected to be recognized over a weighted-average life of 1.9 years.

A summary of the status of the Company s non-vested shares at September 30, 2013 and for the year then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares at October 1, 2012	291,145	$ 4.40
Granted	310,100	2.57
Vested	(129,668)	3.84
Forfeited	(40,972)	4.17
Non-vested shares at September 30, 2013	430,605	$ 3.28

Stock-based compensation recorded in the year ended September 30, 2013 of $656 thousand was allocated $429 thousand to selling and marketing expenses, $40 thousand to general and administrative expenses and $187 thousand to product development expenses. Stock-based compensation recorded in the year ended September 30, 2012 of $742

thousand was allocated $485 thousand to selling and marketing expenses, $43 thousand to general and administrative expenses and $214 thousand to product development expenses. Cash received from exercises under all stock option plans and warrants for the years ended September 30, 2013 and 2012 was $448 thousand and $245 thousand, respectively. There were no tax benefits realized for tax deductions from option exercises for the years ended September 30, 2013 and 2012. The Company currently expects to satisfy stock-based awards with registered shares available to be issued.

The Company also has an Employee Stock Purchase Plan (Purchase Plan) under which an aggregate of 100,000 common shares may be issued. The Shareholders approved an amendment to increase the number of shares of common stock subject to the plan from 50,000 to 100,000 at the Company s annual meeting in March 2011. All employees who have completed 90 days of employment with the Company on the first day of each offering period and customarily work twenty hours per week or more are eligible to participate in the Purchase Plan. An employee who, after the grant of an option to purchase, would hold common stock and/or hold outstanding options to purchase stock possessing 5% or more of the total combined voting power or value of the Company will not be eligible to participate. Eligible employees may make contributions through payroll deductions of up to 10% of their compensation. No participant in the Purchase Plan is permitted to purchase common stock under the Purchase Plan if such option would permit his or her rights to purchase stock under the Purchase Plan to accrue at a rate that exceeds $25,000 of the fair market value of such shares, or that exceeds 1,000 shares, for each calendar year. The Company makes a bi-annual offering to eligible employees of options to purchase shares of common stock under the Purchase Plan on the first trading day of January and July. Each offering period is for a period of six months from the date of the offering, and each eligible employee as of the date of offering is entitled to purchase shares of common stock at a purchase price equal to the lower of 85% of the fair market value of common stock on the first or last trading day of the offering period. A total of 14,346 shares are available to be issued under the plan. There were 15,062 and 21,010 shares purchased by employees during fiscal 2013 and 2012, respectively. The Company recorded stock compensation expense under this plan of $19 and $26 thousand during fiscal 2013 and 2012, respectively. Cash received from issuance of stock under this plan was $75 and $134 thousand during fiscal 2013 and 2012, respectively.

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6. Income Taxes

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

	Years Ended September 30,	
	2013	**2012**
Current tax benefit	$	$
Deferred income tax expense	240	240
Provision for income taxes	$ 240	$ 240

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

	Years Ended September 30,	
	2013	**2012**
Income tax expense (benefit) at U.S. statutory rate of 34%	$ (188)	$ 135
Federal income tax refundable research credit		
State income tax expense (benefit)	(11)	105
Permanent differences, net	111	93
Adjustment of temporary differences to income tax returns	(110)	264
Change in valuation allowance	438	(357)
Income tax expense	$ 240	$ 240

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

	September 30,	
	2013	**2012**
Deferred tax assets:		
Net operating loss and other carryforwards	$ 35,001	$ 34,352

Common stock warrants	636	519
Allowance for doubtful accounts	35	33
Other	47	175
Total deferred tax assets	35,719	35,079
Deferred tax liabilities:		
Fixed assets	(129)	
Other	(321)	(248)
Total deferred tax liabilities	(450)	(248)
Net deferred tax asset	35,269	34,831
Valuation allowance	(35,269)	(34,831)
Goodwill amortization	(2,210)	(1,970)
Deferred tax liability for goodwill amortization	$ (2,210)	$ (1,970)

At September 30, 2013, the Company had net operating loss carryforwards of approximately $89 million for U.S. Federal and $51 million for state tax purposes. For Federal tax purposes, the carryforwards expire in varying amounts between 2019 and 2033. For state tax purposes, the carryforwards expire in varying amounts between 2014 and 2032. Utilization of the Company s net operating loss may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an

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annual limitation could result in the expiration of the net operating loss carryforwards before utilization. In addition, the Company has research and development tax credit carryforwards of approximately $500 thousand, which expire in varying amounts between 2017 and 2020.

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

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

The difference between the book and tax balance of Goodwill creates a Deferred Tax Liability and an annual tax expense. Because of the long term nature of the goodwill timing difference, tax planning strategies cannot be applied related to the Deferred Tax Liability. The Company s tax rate differs from the expected tax rate each reporting period as a result of the aforementioned items. The balance of the Deferred Tax Liability at September 30, 2013 was $2.21 million and $1.97 million at September 30, 2012.

In accordance with accounting guidance for uncertainty in income taxes, the Company has concluded that a reserve for income tax contingencies is not necessary. The Company s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accruals for interest and penalties on the Company s consolidated balance sheets at September 30, 2013 and 2012, and has not recognized any interest or penalties in the consolidated statement of operations for the years ended September 30, 2013 or 2012.

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

7. Stock Repurchase Program

On May 31, 2013, the Company s Board of Directors authorized a $1 million common stock repurchase program. Under the program, the Company s common shares may be repurchased in open market transactions or in privately negotiated transactions. The exact amount and timing of any purchases will depend on a number of factors, including trading price, trading volume and general market conditions. The repurchase program may be suspended or discontinued at any time. The Company has not repurchased any shares of its common stock as of September 30, 2013.

8. Savings Plan

The Company s defined contribution 401(k) savings plan covers substantially all employees meeting certain minimum eligibility requirements. Participating employees can elect to defer a portion of their compensation and contribute it to the plan on a pretax basis. The Company may also match certain amounts and/or provide additional discretionary contributions, as defined. The Company made matching contributions of $275 and $316 thousand during the years ended September 30, 2013 and 2012, respectively. The Company made no additional discretionary contributions during 2013 and 2012.

9. Related-Party Transactions

The Company incurred fees of $171 and $186 thousand during the years ended September 30, 2013 and 2012, respectively, to a law firm whose partner is a director and stockholder of the Company. The Company had accrued liabilities for unbilled services to the same law firm of $14 and $30 thousand at September 30, 2013 and 2012, respectively.

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The Company recorded Mediasite product and customer support revenue of $1.3 million and $1.0 million during the years ended September 30, 2013 and 2012, respectively, to Mediasite KK, a Japanese reseller in which the Company has an equity interest. Mediasite KK owed the Company $280 and $240 thousand at September 30, 2013 and 2012, respectively.

As of September 30, 2013 and 2012, the Company had a loan outstanding to an executive totaling $26 thousand. The loan is collateralized by Company stock.

10. Equity in earnings from investment in Mediasite KK

The Company s investment in Mediasite KK is accounted for under the equity method of accounting using a one quarter timing lag. The Company s current ownership percentage is approximately 26% of their common stock as compared to 23% as of the end of fiscal 2012. The Company recorded equity in earnings of $209 thousand and $420 thousand for the years ended September 30, 2013 and September 30, 2012, respectively. The recorded value of this investment, net of foreign currency translation adjustment, is $385 thousand as of September 30, 2013 and $420 thousand as of September 30, 2012. The Company also received a $22 thousand dividend from Mediasite KK during the year ended September 30, 2013. The results of operations for Mediasite KK for their year ended June 30 are listed in the table below.

	Year ended June 30, 2013	Year ended June 30, 2012
Revenue	$ 8,503,000	$ 9,050,000
Gross margin	6,181,000	6,338,000
Income from operations	1,381,000	2,343,000
Net income	889,000	1,425,000

11. Goodwill and Other Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are not amortized but, instead, tested at least annually for impairment. The Company assesses the impairment of goodwill on an annual basis or whenever events or changes in circumstances indicate that the fair value of these assets is less than the carrying value.

If the Company determines that the fair value of goodwill is less than its carrying value, based upon the annual test or the existence of impairment, the Company would then measure impairment based on a comparison of the implied fair value of goodwill with the carrying amount of goodwill. To the extent the carrying amount of goodwill is greater than the implied fair value of goodwill, an impairment charge for the difference would be recorded. The Company performs annual goodwill impairment test as of July 1, 2013 and tested goodwill recognized in connection with the acquisition of Mediasite and determined it was not impaired.

The following tables present details of the Company s total intangible assets at September 30, 2013 and 2012:

(in thousands)	Life (years)	Gross	Accumulated Amortization at September 30, 2013	Balance at September 30, 2013
Amortizable:				
Loan origination fees	3	$ 150	$ 135	$ 15
		150	135	15
Non-amortizable goodwill		7,576		7,576
Total		$ 7,726	$ 135	$ 7,591

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(in thousands)	Life (years)	Gross	Accumulated Amortization at September 30, 2012	Balance at September 30, 2012
Amortizable:				
Loan origination fees	3	$ 195	$ 180	$ 15
		195	180	15
Non-amortizable goodwill		7,576		7,576
Total		$ 7,771	$ 180	$ 7,591

12. Segment Information

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

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

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

	Years Ended September 30,	
	2013	2012
United States	$ 20,610	$ 20,014
Europe and Middle East	3,621	3,189
Asia	1,772	1,740
Other	1,753	1,147
Total	$ 27,756	$ 26,090

13. Customer Concentration

In the fiscal year ended September 30, 2013 and 2012, two distributors represented 42% and 43% of total revenue. At September 30, 2013 and 2012, these two distributors represented 56% of total accounts receivable.

14. Legal Proceedings

From time to time, the Company is subject to legal proceedings or claims arising from its normal course of operations. The Company accrues for costs related to loss contingencies when such costs are probable and reasonably estimable. As of September 30, 2013, the Company is not aware of any material pending legal proceedings or threatened litigation that would have a material adverse effect on the Company s financial condition or results of operations, although no assurance can be given with respect to the ultimate outcome of pending actions.

On October 26, 2012, a complaint was filed by Astute Technology, LLC (Astute) against Learners Digest International, LLC (Learners Digest), one of our customers, in the United States District Court for the Eastern District of Texas (Case No. 2:012-cv-689). The complaint alleges patent infringement. Because Learners Digest is a customer, we have agreed to indemnify them from costs and damages in connection with the litigation. We believe the complaint is without merit and intend to defend the lawsuit vigorously.

On February 5, 2013, we filed a complaint against Astute in the Western District of Wisconsin (Case No. 13-cv-87). The complaint is for declaratory judgment of non-infringement and invalidity of three United States patents held by Astute. On November 22, 2013 the court ordered the case be dismissed for lack of personal jurisdiction.

On December 3, 2013, we filed a complaint against Astute in the Eastern District of Virginia (Civil Action No. 2:13-cv-681). The complaint is for declaratory judgment of non-infringement and invalidity of three United States Patents held by Astute.

15. Quarterly Financial Data (unaudited)

The following table sets forth selected quarterly financial information for the years ended September 30, 2013 and 2012. The operating results are not necessarily indicative of results for any future period.

	Quarterly Financial Data							
(in thousands except per share data)	**Q4- 13**	**Q3- 13**	**Q2- 13**	**Q1- 13**	**Q4- 12**	**Q3- 12**	**Q2- 12**	**Q1- 12**
Revenue	$ 6,761	$ 8,013	$ 6,430	$ 6,552	$ 6,219	$ 7,757	$ 5,928	$ 6,185
Gross margin	4,892	5,611	4,690	4,867	4,497	5,555	4,284	4,507
Income (loss) from operations	(582)	109	(34)	(131)	(186)	399	(32)	(72)
Equity in earnings from investment in Mediasite KK	30	11	90	78	170	250		
Net income (loss)	(666)	40	(27)	(139)	(103)	559	(115)	(184)
Basic and diluted net income (loss) per share	$ (0.17)	$ 0.01	$ (0.01)	$ (0.04)	$ (0.03)	$ 0.14	$ (0.03)	$ (0.05)

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16. Subsequent Events

On November 19, 2013, Sonic Foundry entered into a non-binding term sheet to purchase the remaining shares of stock in Mediasite KK in Japan. Under the terms of the non-binding term sheet, Sonic Foundry will pay approximately ¥585 million ($5.85 million) for the remaining stock in Mediasite K.K., comprised of equal components of approximately $1.95 million cash, subordinated note payable in one year (interest rate of 6.5%) and value in shares of Sonic Foundry. The transaction is subject to execution of a definitive stock purchase agreement and customary closing conditions.

On December 9, 2013, Sonic Foundry entered into a definitive agreement to acquire MediaMission Holding B.V. (MediaMission) in the Netherlands. The purchase was closed on December 16, 2013. Sonic Foundry paid 1.1 million for all the outstanding stock in MediaMission, comprised of 330,000 ($453,000) cash, 495,000 ($680,000) subordinated note payable over three years (interest rate of 6.5%) and 275,000 ($373,000) in shares of Sonic Foundry stock. The stock portion of the purchase price consisted of 37,608 shares of Sonic Foundry common stock, calculated at a per share price of $9.92, which was based on the average closing share price over the twenty day trading period before the announcement. Assets acquired include cash, accounts receivable, inventory, fixed assets, and goodwill and liabilities assumed include accounts payable and liabilities owed to the former shareholders. The purchase price allocation has not been finalized as the Company is in the process of completing its valuation process.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on evaluations as of the end of the period covered by this report, our principal executive officer and principal financial officer, with the participation of our management team, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e), and 15d-15(e) under the Securities Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that material information relating to the Company is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of September 30, 2013 solely because we identified a material weakness in the internal control over accounting for our

equity-method investment in Mediasite KK (MSKK) as discussed further in Management s Report on Internal Control over Financial Reporting below.

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

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

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Management s Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *1992 Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, our principal executive officer and principal financial officer concluded that our internal controls over financial reporting were not effective as of September 30, 2013 solely because we identified a material weakness in internal control over accounting for our equity-method investment in MSKK. Our internal controls related to the capture of MSKK s historical information, the accounting for our investment in MSKK based on that information and the review of such accounting did not operate effectively and were not sufficient to ensure that our accounting was in accordance with U.S. generally accepted accounting principles.

In light of the material weakness described above, additional procedures were performed by our management to ensure that the condensed consolidated financial statements included in this report were prepared in accordance with U.S. generally accepted accounting principles.

We reported two other material weaknesses in our Form 10-Q for the three and six month periods ended March 31, 2013. Those two material weaknesses in internal control over financial reporting related to review controls that did not operate effectively over general ledger setup of new product in our accounting system and missing review, policy and amortization controls over accounting treatment for internal software development efforts. We determined that the possibility exists for general ledger setup of product to be modified in our accounting system without independent review. We also determined that we were missing controls around the capitalization of internal software development efforts. Both of these material weaknesses were remediated during the year ending September 30, 2013.

Changes in Internal Control Over Financial Reporting

We have not made any change to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by Item 10 of Form 10-K with respect to directors and executive officers is incorporated herein by reference to the information contained in the section entitled Proposal One: Election of Directors and Executive Officers of Sonic , respectively, in the Company s definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Company s 2013 Annual Meeting of Stockholders, which will be filed no later than January 28, 2013 (the Proxy Statement).

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

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

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 of Form 10-K is incorporated herein by reference to the information contained in the section entitled Ratification of Appointment of Independent Auditors Fiscal 2012 and 2013 Audit Fee Summary in the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following financial statements are filed as part of this report:

1. Financial Statements furnished are listed in the Table of Contents provided in response to Item 8.

2. Exhibits.

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3.1	Articles of Amendment of Amended and Restated Articles of Incorporation, effective November 16, 2009, Amended and Restated Articles of Incorporation, effective January 26, 1998, and Articles of Amendment, effective April 9, 2000, filed as Exhibit No. 3.1 to the Annual Report on Form 10-K for the year ended September 30, 2009, and hereby incorporated by reference.
3.2	Amended and Restated By-Laws of the Registrant, filed as Exhibit No. 3.1 to the Form 8-K filed on October 11, 2011, and hereby incorporated by reference.
10.1*	Amended and Restated Employment Agreement between Registrant and Gary Weis dated as of September 30, 2011, filed as Exhibit 10.1 to the Form 8-K filed on October 4, 2011, and hereby incorporated by reference.
10.2*	Registrant s Amended 1999 Non-Qualified Plan, filed as Exhibit 4.1 to Form S-8 on December 21, 2001, and hereby incorporated by reference.
10.3	Intellectual Property Security Agreement dated May 2, 2007, between Sonic Foundry, Inc. and Silicon Valley Bank filed as Exhibit 10.2 to the Form 8-K on May 7, 2007, and hereby incorporated by reference.
10.4	Intellectual Property Security Agreement dated May 2, 2007, between Sonic Foundry Media Systems, Inc. and Silicon Valley Bank filed as Exhibit 10.3 to Form 8-K on May 7, 2007, and hereby incorporated by reference.
10.5	Employment Agreement dated October 31, 2007 between Sonic Foundry, Inc. and Kenneth A. Minor, filed as Exhibit 10.1 to the Form 8-K filed on November 2, 2007, and hereby incorporated by reference.
10.6*	Employment Agreement dated August 4, 2008 between Sonic Foundry, Inc. and Robert M. Lipps, filed as Exhibit 10.1 to the Form 8-K filed on August 6, 2008, and hereby incorporated by reference.
10.7*	Registrant s 1995 Stock Option Plan, as amended, filed as Exhibit No. 4.1 to the Registration Statement on Form S-8 on September 8, 2000, and hereby incorporated by reference.
10.8*	Registrant s 2008 Non-Employee Directors Stock Option Plan, as amended, filed as Exhibit 10.13 to the Form 10-Q filed on May 1, 2012, and hereby incorporated by reference.
10.9*	Registrant s 2008 Employee Stock Purchase Plan filed as Exhibit C to Form 14A filed on January 28, 2008, and hereby incorporated by reference.
10.10*	Registrant s 2009 Stock Incentive Plan, as amended, filed as Exhibit 10.15 to the Form 10-Q filed on May 1, 2012, and hereby incorporated by reference.
10.11	Lease Agreement between Registrant, as tenant, and West Washington Associates, LLC as landlord, dated June 28, 2011, filed as Exhibit 10.1 to the Form 8-K filed on July 1, 2011, and hereby incorporated by reference.
10.12	Second Amended and Restated Loan and Security Agreement dated June 27, 2011 among Registrant, Sonic Foundry Media Systems, Inc. and Silicon Valley Bank, filed as Exhibit 10.2 to the Form 8-K filed on July 1, 2011, and hereby incorporated by reference.

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For the Year Ended September 30, 2013

10.13	Consent and Modification No. 1 to Loan and Security Agreement entered into as of June 28, 2011, among Partners for Growth II, L.P., Registrant and Sonic Foundry Media Systems, Inc. filed as Exhibit 10.3 to the Form 8-K filed on July 1, 2011, and hereby incorporated by reference.
10.14	First Amendment to Second Amended and Restated Loan and Security Agreement dated May 31, 2013 among Registrant, Sonic Foundry Media Systems, Inc. and Silicon Valley Bank, filed as Exhibit 10.1 to the Form 8-K filed on June 3, 2013, and hereby incorporated by reference.
21	List of Subsidiaries
23	Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer, Chief Accounting Officer and Secretary
32	Section 906 Certification of Chief Executive Officer and Chief Financial Officer, Chief Accounting Officer and Secretary
101	The following materials from the Sonic Foundry, Inc. Form 10-K for the year ended September 30, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Comprehensive Loss, (iv) the Consolidated Statements of Stockholder s Equity, (v) the Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements.

* Compensatory Plan or Arrangement

(b) Exhibits See exhibit index in Item 15(a)2 of this Report.

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SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sonic Foundry, Inc.

(Registrant)

By: /s/ Gary R. Weis
Gary R. Weis
Chairman and Chief Executive Officer

Date: December 26, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Gary R. Weis	Chief Executive Officer and Director	December 26, 2013
/s/ Kenneth A. Minor	Chief Financial Officer, Chief Accounting Officer and Secretary	December 26, 2013
/s/ Mark D. Burish	Chair and Director	December 26, 2013
/s/ Michael H. Janowiak	Director	December 26, 2013
/s/ David C. Kleinman	Director	December 26, 2013
/s/ Frederick H. Kopko, Jr.	Director	December 26, 2013
/s/ Paul S. Peercy	Director	December 26, 2013
/s/ Brian T. Wiegand	Director	December 26, 2013