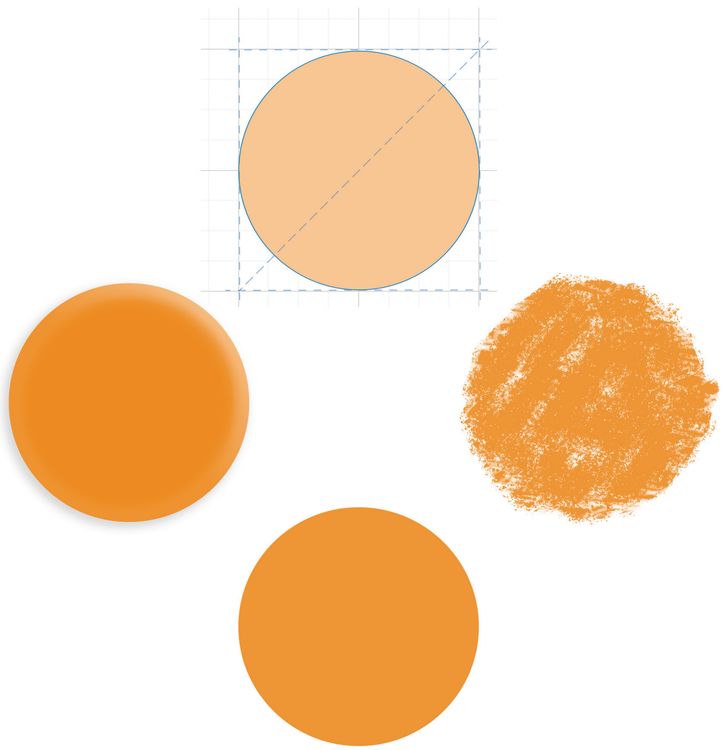

2020 ANNUAL REPORT

sonicfoundry®

PEOPLE
STRATEGY
EXECUTION

Dear Fellow Shareholders,

It's hard to believe it's only been five months since I last wrote to you. It feels like the world is constantly changing, sometimes even by the hour.

This fast-paced new reality requires rapid action from every angle. Our customers must be capable of pivoting at any moment to accommodate the changing needs of their users who are trying to navigate the future of the classroom, workspace and event landscape. We at Sonic Foundry must anticipate our customers' needs, staying one step ahead by innovating new technologies and offerings to meet market demands and help our clients solve their business issues.

As I discussed at our last shareholder meeting in January, personally, I am energized by rapid change. We at Sonic Foundry are motivated by it, too, and I am proud of what our team has accomplished.

I'm continually inspired by a book that I've used during my career – *Execution: The Discipline of Getting Things Done*, by Larry Bossidy. The book centers around three pillars: People. Strategy. Execution. I've used this approach numerous times and am applying it again at Sonic Foundry. I would like to share the progress we've made in applying these three pillars and how we are continuing to position our company for significant growth in the future.

2020: A Year in Review

While I'm sure the idea of looking back to 2020 isn't high on your list of things to do, it's important to put into perspective just how far we've come collectively from a societal and industry perspective.

It was certainly a year of massive change. Through video we remained digitally connected with friends and family, kept businesses operating, classes open, and avoided events being cancelled. Imagine a world where this wasn't an option.

A year ago there was market confusion and general discomfort from people being on screen. Now, we're all more likely to turn on our cameras. We don't think twice about showing a less-than-pristine home office or creating and sharing a video that is not professionally produced. The speed at which we communicate now tops formality, and this has not only become part of our daily routine, but it is also cemented in our culture.

From March to September 2020 our customers created 5.8 million videos using Mediasite technology. Those videos were viewed 1.4 billion times. Yes, billion with a 'b.' That's incredible. To put that in perspective, it's almost 10 times what many of our users were doing pre-pandemic. COVID-19 was a 10-year accelerant in our industry. There is no going back, and I believe this will continue to create new opportunities for our business.

With that said, let me take a moment to address what you might be asking yourself: Why don't our financials and stock price match our usage momentum? Clearly, the largest impact on our business has been that the presentation space is a primary area where we have participated in the marketplace historically. Let me emphasize that point again — the classroom and meeting room is where we earn a large component of our revenue today. However, these facilities have largely remained empty. We needed to overcome this massive constraint to our traditional go-to-market approach. And we did — quite successfully.

You may recall back in January I shared how we will augment our business with what I believe to be two large growth markets for us: cloud video management and virtual and hybrid events. Our bold and rapid move into these areas have allowed us to create new client offerings and develop ongoing revenue streams. Ultimately, I believe we will outperform last year, despite the impact of COVID on our traditional go-to-market approach. We anticipated this and positioned our company to offer services that best help our clients. We worked side-by-side with our customers to help them quickly rethink how to use our technologies in 2020 to ensure they could deliver fully virtual classes, meetings and events. We created cloud options to help them manage what became an overflowing stream of new videos. Our team supported our customers around the clock to help them navigate the uncertainty. Our customers became leaders in the industry, fully embracing Mediasite solutions. Let's look at two examples.

The Bank of Sun Prairie in the greater Madison, Wis., region recently held its virtual stockholder meeting with our Mediasite Events platform. This was the first virtual event in the bank's 124-year history, having never considered it prior to the pandemic. The bank reached a larger audience and received rave reviews from its shareholders.

On the cloud front, University of Leeds in the United Kingdom successfully completed a massive migration of its Mediasite deployment to our cloud, part of a multi-year commitment to support usage of academic video for virtual and post-pandemic hybrid classes. The university saw the use of video lessons and assignments grow five times over the prior year, with students watching from nearly 100 countries.

The new demand for video worldwide creates an urgent need to ensure those videos can be accessed anytime, anywhere without bandwidth constraints. Our professional services team has been working with organizations worldwide like Leeds to host their data in our cloud, a relatively new focus for us but a key part of our trajectory forward.

We saw cloud hosting increase by 42 percent year to date through our second quarter of 2021 over the same period in 2020, and events revenue is double what it was last year. I expect these new focuses to continue to grow at substantial rates for us.

Let's not dismiss the traditional classrooms and meeting rooms, though. Looking ahead, I expect it to remain a key piece of our business because we believe the lights will turn on again soon. Now more than ever the need for video technologies to deliver online learning is crystal clear. Universities now recognize online learning solutions not only aid their business, but they are also critical to their survival. Also, after so much uncertainty in education, there will be a greater demand from instructors and students to expand classroom video technologies as an online learning component. We have unparalleled technology to do that and an extensive user base ready to make it a reality.

Laying the Foundation for Future Growth

While 2020 was a year of tremendous hardship, from a business perspective it's important to focus on the positives. I believe that these changes in the way we work, learn and communicate, and the rapid adoption of video, reinforces our company's vision and prospects for creating substantial growth. We've achieved progress toward this since we last spoke.

Referring to the three pillars, I am excited about the 'People' part of our equation. In January, I told you about our business growth strategy. Part of that plan included introducing new faces to our team, and that is happening at every level. Our management team looks different, with the addition of three new senior positions including an SVP of Product and Technology, Steve McKee, an SVP of Sales and Marketing, Duane Glader, and a VP Controller, CJ Tao. In addition, our longtime CFO of 20 years, Ken Minor, returned to the business. Each has a background creating high growth and/or maneuvering in capital market activities. These are areas I anticipated to be future pathways for our organization, and these new positions support the company's efforts to create new revenue streams, open new market share and increase customer adoption of Mediasite services.

We are also making changes at the board level, which we will address further during our upcoming shareholder meeting in June. I'd like to thank David Slayton and Gary Weis, longtime board members, for their years of service to our company. They will be stepping down as we welcome Taha Jangda, the General Partner of Healthx Ventures, and William St. Lawrence, General Counsel/VP of Business Development at BioDental Sciences, Inc., to the board. Mr. Jangda has extensive experience in start-ups and fast market growth and understands how new technologies can impact businesses and create new opportunities. Mr. St. Lawrence has vast capital market experience along with corporate development activities and recognizes how speed in the marketplace is a critical factor for growth – our growth. As we achieve internal and external growth, and launch new services, I am excited about the opportunity to work with them.

This is our leadership growth team. I am confident we have the right people in place to build and execute our strategy to establish new levels of growth at Sonic Foundry.

Thinking Differently About the Business

Now that we have the right people in place, we have been honing our 'Strategy' — pillar number two — over the past few months. I believe the future of Mediasite includes integrating our rock-solid video solutions with other technologies and business opportunities that can further enhance video such as augmented reality, artificial intelligence and 360-degree video. We are currently working on new opportunities within these arenas.

For 2021, we are focused on determining what new areas of business will get us to what I like to call, "the upper-right-hand-corner." As I have done in the past when creating new growth, we are using design theory and thinking to envision our goal. This time, we are engaging with The Berkeley Innovation Group, an innovation consultancy that helps companies expedite time-to-market with design thinking. This group, along with our Product Council which kicked off a few months ago and is comprised of both Sonic Foundry employees and outside industry leaders, is thinking creatively about our business. Both groups are helping us envision new high-growth areas and will inform our thinking of the markets we have the right to win within. This avenue for new, scalable growth will be built on our video solutions' DNA, our team's extensive expertise and our outstanding customer base.

We have exciting momentum for expansion within existing customers, too. For example, the Netherlands' Ministry of Defence, a Mediasite user for more than a decade, recently expanded its on-premises deployment and signed a three-year contract for our cloud. They value our approach to securing their content, and there are more opportunities for expansion to support their need for online trainings and the growth in virtual training across defense sectors worldwide. This market opportunity alone is vast.

Similarly, we're excited about the investments and focus we made in our events business. There has been a lot of change in the events industry, but one thing remains constant: the value of educational content. That is our focus. The revenue per event in Mediasite Events is almost double what it was pre-pandemic because we are bringing in more service offerings to our clients. In this new emerging hybrid world, where meetings have both an online and in-person component, we are leaders in helping our customers capture, manage and leverage their content year-round. Our events business has traditionally focused on leading events and managing content, and today we are not only producing events, but we also help clients leverage and monetize content in ways they never did before.

We are exploring ways to monetize the prolific content directly through our channels and indirectly to help our customers deliver value to their attendees, including continued engagement, memberships, pay-to-watch and subscriptions. We are no longer a technology service provider for the event. We *are* the event. We are extending its life cycle to create year-round engagement. That's the future of this part of our business.

We are leading by example. We hosted a fully virtual Mediasite Experience 2021 conference in May where leaders in the meetings and events industry, healthcare, higher education and enterprise came together through our Mediasite Events platform to learn how to increase the impact and adoption of video in their organizations. Within the first day of opening registration we received record response, and our team of experts positioned us as thought leaders in the space, helping attendees navigate the new video-first world. That conference is available all year on-demand, and is one we were extremely proud to produce.

Our business has come a long way already, but there is still much work to be done. I am confident we have the team in place to reach our goals and grow our business. We are helping to write the future of our industry, and that is exciting. As we put the final pieces of the strategy together we will swiftly move to the final pillar, ‘Execution,’ and we’ve already started to make dramatic departmental changes within our organization to support our growth strategy.

I am even more enthusiastic about where we are headed than when I joined the company 10 months ago. I believe if you have a vision and a mentality for growth, and have a passionate team in place, you can create dramatic growth. We are on the journey to making our — your — company a growth company.

Sincerely,

Joe Mozden Jr.

CEO

sonicfoundry®

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held June 24, 2021

The Annual Meeting of Stockholders of **SONIC FOUNDRY, INC**., a Maryland corporation ("Sonic") will be held virtually, over the Internet, on June 24, 2021, for the following purposes:

1. To elect three directors to hold office for the terms set forth herein and until their successors are duly elected and qualified.

2. To ratify the appointment of Wipfli LLP as our independent auditors for the fiscal year ending September 30, 2021;

3. To transact such other business as may properly come before the meeting or any adjournments thereof.

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

The Annual Meeting will be a virtual meeting held over the Internet via Mediasite at www.sonicfoundry.com/shareholder. You will be able to vote your shares electronically at proxyvote.com by entering your sixteen-digit control number located on your proxy card or in the email you have consented to receive from your bank/broker that retains your shares.

Only holders of record of Common Stock at the close of business on May 17, 2021 are entitled to notice of, and to vote at, this virtual meeting or any adjournment or adjournments thereof. You are invited to attend the virtual annual meeting if you are a stockholder of record or a beneficial owner of shares of our common stock as of the Record Date.

The Company has also arranged for space in our offices located at 222 West Washington Avenue, Suite 100, Madison, Wisconsin 53703 from which you can access the Internet and attend the meeting. Should you wish to do so, please contact Laura Delis at laura.delis@sonicfoundry.com no later than seven days prior to the virtual annual meeting. This is an option we are providing for your convenience, as required by Maryland law. YOU DO NOT HAVE TO UTILIZE THIS SPACE IN ORDER TO ACCESS THE VIRTUAL MEETING. YOU MAY ACCESS THE VIRTUAL MEETING FROM ANY CONVENIENT LOCATION.

Please complete and return the enclosed proxy in the envelope provided or follow the instructions on the proxy card to authorize a proxy by telephone or over the Internet.

By Order of the Board of Directors,

Madison, Wisconsin
May 17, 2021

Ken Minor
Secretary

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

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

May 17, 2021

PROXY STATEMENT

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

> **FOR** the election of Frederick H. Kopko Jr. and Taha Jangda for terms expiring in 2026 and William St. Lawrence for term expiring 2023;
>
> **FOR** the ratification of the appointment of Wipfli LLP as independent auditors of Sonic for the fiscal year ending September 30, 2021.

In the event that a nominee for director becomes unavailable to serve, which management does not expect, the persons named in the proxy reserve full discretion to vote for any other persons who may be nominated. Proxies may also be authorized by telephone or over the Internet by following the instructions on the proxy card. Any stockholder giving a proxy may revoke it at any time prior to the voting of such proxy. This Proxy Statement and the accompanying proxy are being mailed on or about May 21, 2021.

Each holder of Common Stock will be entitled to one vote for each share of Common Stock standing in his or her name on our books at the close of business on May 17, 2021 (the "Record Date"). Only holders of issued and outstanding shares of Sonic's Common stock as of the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting, including any adjournment or postponement thereof. On that date, we had outstanding and entitled to vote 8,064,838 shares of Common Stock, held by approximately 2,800 stockholders, of which approximately 2,600 were held in street name.

The Annual Meeting will be a virtual meeting held over the Internet via Mediasite at www.sonicfoundry.com/shareholder. You will be able to vote your shares electronically at proxyvote.com by entering your sixteen-digit control number located on your proxy card or in the email you have consented to receive from your bank/broker that retains your shares.

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QUORUM; VOTES REQUIRED

Votes cast by proxy or in person at the virtual Annual Meeting will be tabulated by the inspector of elections appointed for the virtual Annual Meeting and will determine whether or not a quorum is present. Where, as to any matter submitted to the stockholders for a vote, proxies are marked as abstentions (or stockholders appear in person but abstain from voting), such abstentions will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but will not be treated as present and entitled to vote for any other purpose. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter and has not received instructions from the beneficial owner, which is known as a broker non-vote, such shares will also be considered present for purposes of a quorum, provided that the broker exercises discretionary authority on any other matter in the Proxy. A majority of the shares of stock issued, outstanding and entitled to vote at the Annual Meeting, present in person or represented by proxy, shall constitute a quorum at the virtual Annual Meeting. The election of Directors requires a plurality of the votes present and entitled to vote. Therefore, the three directors who receive the highest vote total will be elected. Neither an abstention nor a withheld vote will affect the outcome of the election. The ratification of the appointment of Wipfli, LLP requires the affirmative vote of the holders of a majority of the votes cast at the virtual Annual Meeting. If you abstain or withhold your vote on these proposals, it will have no effect on the outcome of the proposal.

The New York Stock Exchange ("NYSE") has rules that govern brokers who have record ownership of listed company stock held in brokerage accounts for their clients who beneficially own the shares. Under these rules, brokers who do not receive voting instructions from their clients have the discretion to vote uninstructed shares on certain discretionary matters but do not have discretion to vote uninstructed shares as to certain other non-discretionary matters. A broker may return a proxy card on behalf of a beneficial owner from whom the broker has not received instructions that casts a vote with regard to discretionary matters but expressly states that the broker is not voting as to non-discretionary matters. The broker's inability to vote with respect to the non-discretionary matters with respect to which the broker has not received instructions from the beneficial owner is referred to as a "broker non-vote". Under current NYSE interpretations, the proposal to ratify the appointment of Wipfli, LLP as our independent auditor is considered a discretionary matter.

DATE, TIME AND PLACE OF ANNUAL MEETING

The Annual Meeting will be held virtually, over the Internet, on June 24, 2021 at 9:00 a.m. (Central time).

HOW TO VOTE AT THE ANNUAL MEETING

The Annual Meeting will be a virtual meeting held over the Internet via Mediasite at www.sonicfoundry.com/shareholder. You will be able to vote your shares electronically at proxyvote.com by entering your sixteen-digit control number located on your proxy card or in the email you have consented to receive from your bank/broker that retains your shares.

The Company has also arranged for space in our offices located at 222 West Washington Avenue, Suite 100, Madison, Wisconsin 53703 from which you can access the Internet and attend the virtual meeting. Should you wish to do so, please contact Laura Delis at laura.delis@sonicfoundry.com no later than seven days prior to the virtual annual meeting. This is an option we are providing for your convenience, as required by Maryland law. YOU DO NOT HAVE TO UTILIZE THIS SPACE IN ORDER TO ACCESS THE VIRTUAL MEETING. YOU MAY ACCESS THE VIRTUAL MEETING FROM ANY CONVENIENT LOCATION.

PROPOSAL ONE: ELECTION OF DIRECTORS

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

Our Amended and Restated Articles of Incorporation provide that the number of directors, which shall constitute the whole Board of Directors, shall not be less than three or more than twelve. The currently authorized number of directors is seven. The seat on the Board of Directors currently held by Frederick H. Kopko, Jr. is designated as a Class III Board seat, with a term expiring at the Annual Meeting. Additionally, following the resignations of David Slayton and Gary Weis, the Sonic Board of Directors appointed Messrs. Taha Jangda and William St. Lawrence for seats on the Board of Directors in May 2021 with terms expiring at the Annual Meeting. The Board of Directors has nominated Frederick H. Kopko, Jr. and Taha Jangda as Class III Directors and William St. Lawrence as a Class V Director for election at the Annual Meeting.

If elected at the Annual Meeting, Messrs. Kopko and Taha Jangda would serve until the 2026 Annual Meeting and William St. Lawrence will serve until the 2023 Annual Meeting and until their successors are elected and qualified or until their earlier death, resignation or removal.

The election of Messrs. Kopko, Jangda and St. Lawrence requires a plurality of the votes present and entitled to vote.

Nominees for Director for a Five-Year term expiring on the 2026 Annual Meeting

Frederick H. Kopko, Jr. **Term Expires in 2026 (Class III director)**

Mr. Kopko, age 65, served as Sonic Foundry's Secretary from April 1997 to February 2001 and has been a Director since December 1995. Mr. Kopko is a partner of the law firm of McBreen & Kopko, Chicago, Illinois, and has been a partner of that firm since January 1990. Mr. Kopko practices in the area of corporate law. He is the Managing Director, Neltjeberg Bay Enterprises LLC, a merchant banking and business consulting firm and has been a Director of Mercury Air Group, Inc. since 1992. Mr. Kopko received a B.A. degree in Economics from the University of Connecticut, a J.D. degree from the University of Notre Dame Law School and an M.B.A. degree from the University of Chicago.

Taha Jangda **Term Expires in 2026 (Class III director)**

Mr. Jangda, age 30, was elected as a Director in May 2021. Mr. Jangda is the General Partner of Healthx Ventures, a digital healthcare-focused early-stage fund since December 2016, a member of the board of directors of Orbita, Inc. since 2018 as well as serving in numerous board observer and advisory roles. Prior to his current roles, Mr. Jangda served from February 2015 to September 2017, as one of the founding team members and Strategic Advisor of TMC Innovation Institute, an accelerator program for the development of medical devices and digital heath startups. From September 2015 to December 2016 Mr. Jangda served as the Chief Evangelist of Redox, a healthcare industry software company. From August 2014 to October 2015 Mr. Jangda was the Director of Commercialization for Admetsys, a developer of real-time diagnostic platform and closed-loop artificial pancreas. Mr. Jangda has a BS in Psychology from Texas A&M University.

Nominee for Director for a Two-Year term expiring on the 2023 Annual Meeting

William St. Lawrence **Term Expires in 2023 (Class V director)**

Mr. St. Lawrence, age 52, was elected as a Director in May 2021. Mr. St. Lawrence has served as the General Counsel / VP of Business Development at BioDental Sciences, Inc, a dental technology and services company since August 2019. Prior to joining BioDental Sciences, Inc., Mr. St. Lawrence served from February 2017 to August 2019, as the General Counsel and then interim CEO at Northern Power Systems (TSX), a VT-based renewable energy company. From September 2012 to December 2020 Mr. St. Lawrence was General Counsel and Chief Administrative Officer / Advisor for Northeast Wireless Networks, a wholesale shared access cellular networks company acquired by AT&T in September 2018. Mr. St. Lawrence has a B.A. in History from Hobart and William Smith Colleges and a J.D. from the University of Maine School of Law.

The members of the Board of Directors unanimously recommend a vote FOR the election of Messrs. Kopko and Jangda as Class III Directors and Mr. St. Lawrence as a Class V Director.

DIRECTORS CONTINUING IN OFFICE

Brian T. Wiegand **Term Expires in 2022 (Class IV Director)**

Mr. Wiegand, age, 51, has been a director of the Company since July 2012, and is a serial entrepreneur who successfully founded and sold several internet-based companies. He is currently the founder and CEO of Gravy, Inc., a live video shopping platform. Mr. Wiegand founded and served as CEO of Hopster, a company that links digital marketing efforts with real-world shopping behavior by rewarding consumer purchase loyalty, engagement and advocacy. Hopster announced in October 2014 that it was acquired by Inmar, Incorporated, where Mr. Wiegand served as SVP of Growth and Strategy from the date of purchase to August 2016. Mr. Wiegand co-founded and served as executive chair of the board of Alice.com, an online retail platform that connects manufacturers and consumers in the consumer packaged goods market. Alice.com filed for receivership in August 2013. Mr. Wiegand also co-founded Jellyfish.com, a shopping search engine, in June of 2006. He served as CEO until October 2007 when the company was sold to Microsoft. Mr. Wiegand continued with Microsoft as the General Manager of Social Commerce until May 2008. He also co-founded NameProtect, a trademark research and digital brand protection services company in August 1997 which was sold to Corporation Services Company in March 2007. In addition, Mr. Wiegand founded BizFilings in 1996, the Internet's leading incorporation Services Company. He served as the president and CEO until 2002 when the company was acquired by Wolters Kluwer. Mr. Wiegand attended the University of Wisconsin – Madison.

Nelson A. Murphy **Term Expires in 2024 (Class I Director)**

Mr. Murphy, age 60, has been a Director since November 2017. Since January 2015, Mr. Murphy has been the Executive VP, Finance & Operations for Catawba College, a private liberal arts college. From August 2013 to June 2015 Mr. Murphy was VP, International Finance at Syniverse Technologies, Inc. in Luxembourg, a provider of mobile technologies, and from October 2010 to August 2013 served as VP – Finance, Defensive Systems Division at Northrop Grumman Corporation, a global security company. Previously, Mr. Murphy served in various senior finance roles at AT&T including responsibility for finance in operations located in Europe, the Middle East and Latin America. Mr. Murphy has a B.S. in Accounting from Wake Forest University.

Mark D. Burish **Term Expires in 2025 (Class II Director)**

Mr. Burish, age 67, has been a director since March 2010 and has served as Non-Executive Chair since April 2011. Mr. Burish is a shareholder of the law firm of Hurley, Burish & Stanton, Madison, WI, which he helped start in 1983. He is the founder and CEO of Our House Senior Living, LLC, Milestone Senior Living, LLC and Milestone Management Services, LLC which he started in 1997. Mr. Burish received his BA degree in communications from Marquette University in 1975 and his JD degree from the University of Wisconsin in 1978.

Joe Mozden Jr. **Term Expires in 2025 (Class II Director)**

Mr. Mozden, age 57, was appointed by the Board of Directors to serve as the Company's Chief Executive Officer, effective September 14, 2020, and to serve as a Class II Director. Prior to joining the Company, from 2015 to 2020, Mr. Mozden served as Vice-President of DeVry University and leader of DeVryWORKS, an e-learning platform focused on servicing corporations, military and educational institutions. From 2005 to 2015 he served as Executive Vice-President and Chief Operating Officer for the Alliant Group, a private equity-owned multi-channel marketing services provider specializing in database marketing, data aggregation, and analytics for advanced advertising, direct mail, telemarketing, e-mail marketing, and big data. He also has been in sales and marketing roles at Commonwealth Telephone Enterprises, Inc. and LSSI, a data aggregator providing content and SaaS offerings to telco, marketing, cable and SEO companies. His other board affiliations include a manufacturing company and a non-for-profit charitable organization. Mr. Mozden received a BS in Electrical Engineering from Rensselaer-Polytechnic Institute and an MBA in Finance and International Business from New York University.

DIRECTORS NOT CONTINUING IN OFFICE

Gary R. Weis

Mr. Weis, age 74, served as Chief Executive Officer from March 2011 until April 2019, Chief Technology Officer from September 2011 to April 2019 and a Director of Sonic from February 2004 to May 2021. Prior to joining Sonic, he served as President, Chief Executive Officer and a Director of Cometa Networks, a wireless broadband Internet access company from March 2003 to April 2004. From May 1999 to February 2003 he was Senior Vice President of Global Services at AT&T where he was responsible for one of the world's largest data and IP networks, serving more than 30,000 businesses and providing Internet access to more than one million individuals worldwide. While at AT&T, Mr. Weis also was CEO of Concert, a joint venture between AT&T and British Telecom. Previously, from January 1995 to May 1999 he was General Manager of IBM Global Services, Network Services. Mr. Weis served as a Director from March 2001 to February 2003 of AT&T Latin America, a facilities-based provider of telecom services in Brazil, Argentina, Chile, Peru and Columbia. Mr. Weis earned BS and MS degrees in Applied Mathematics and Computer Science at the University of Illinois, Chicago. Mr. Weis resigned from the Board of Directors on May 11, 2021, effective April 30, 2021.

David F. Slayton

Mr. Slayton, age 52, served as a Director from November 2017 to May 2021. Since April 2013, Mr. Slayton has been the Chief Financial Officer of Ovative Group, a digital media agency and analytics firm. From July 2008 to March 2013, Mr. Slayton was co-founder, Executive Vice President – CFO and a member of the board of Alice.com, an e-commerce retail marketplace. Prior to his service at Alice.com, Mr. Slayton served in senior financial management roles at numerous companies including as Chief Financial Officer at Shavlik Technologies from June 2005 to July 2008, Managing Director and co-founder at Haviland Partners Inc. from August 2003 to February 2005 and as Chief Financial of NameProtect Inc. from July 2000 to July 2003. Mr. Slayton earned a BS in Economics from the Massachusetts Institute of Technology (June 1991) and an MBA in Business Administration from Harvard University (June 1996). Mr. Slayton resigned from the Board of Directors on May 6, 2021.

When considering whether the Board of Directors and nominees thereto have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Board of Directors focused primarily on the information discussed in each of the Board members' biographical information set forth above. Each of the Company's directors possess high ethical standards, act with integrity and exercise careful, mature judgment. Each is committed to employing his skills and abilities to aid the long-term interests of the stakeholders of the Company. In addition, each of our directors has exhibited judgment and skill, and has either been actively involved with the Company for a considerable period of time or has experience with other organizations of comparable or greater size. In particular, Mr. Kopko has had extensive experience with companies comparable in size to Sonic Foundry, including serving as a director of Mercury Air Group, Inc. and other private and public companies and fills a valuable need with experience in securities and other business law. Mr. Burish brings additional valuable legal experience to the Board as well as experience obtained through founding multiple companies. Mr. Wiegand has significant experience in founding and operating technology companies and building brand awareness with both businesses and consumers. Mr. Murphy has significant experience in finance and accounting both in the higher education field as well as with technology companies. Mr. Mozden has significant experience in developing and managing e-learning platforms. Mr. Jangda has significant experience founding and investing in technology companies. Mr. St. Lawrence has substantial experience in business law and managing technology companies.

CORPORATE GOVERNANCE

Director Independence

Although the Company's stock is no longer listed on the NASDAQ Stock Market ("NASDAQ"), the Company complies with many of the listing requirements for such market. After meeting all of the listing requirements for NASDAQ, the Company will consider reapplying for listing. NASDAQ requires that a majority of the members of our Board be independent, as defined under NASDAQ's rules. The NASDAQ rules have both objective tests and a subjective test for determining who is an "independent director." The objective tests state, for example, that a director is not considered independent if he or she is an employee of the Company or has engaged in various types of business dealings with the Company. The subjective test states that an independent director must be a person who lacks a relationship that in the opinion of the Board would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has made a subjective determination as to each independent director that no relationship exists that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, the Board reviews information provided by the directors in an annual questionnaire with regard to each director's business and personal activities as they relate to the Company. Based on this review and consistent with NASDAQ's independence criteria, the Board has affirmatively determined that Nelson A. Murphy, Taha Jangda, William St. Lawrence and Brian T. Wiegand are independent.

Related Person Transaction

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

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

Board Leadership Structure and Role in Risk Oversight

Mark D. Burish serves as Non-Executive Chairman of the Board and Joe Mozden Jr. serves as our Chief Executive Officer. The Company believes that having separate positions provides an appropriate leadership structure.

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

What is the Board's role in risk oversight?

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

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

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

Board Structure and Meetings

The Board met five times during Fiscal 2020. The Board also acted by written consent from time to time. All directors attended at least 75% of the total number of Board meetings and committee meetings on which they serve (during the period in which each director served). In addition, NASDAQ marketplace rules contemplate that the independent members of our Board will meet during the year in separate closed meetings referred to as "executive sessions" without any employee director or executive officer present. Executive sessions were usually held after regularly scheduled Board meetings during Fiscal 2020.

The Board of Directors has four standing committees, the Audit Committee, the Executive Compensation Committee, the Governance Committee and the Nominations Committee. The Board of Directors also established a special committee of disinterested and independent members to consider and negotiate the terms of transactions between the Company and Mark D. Burish, the Company's chair.

Sonic has a standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Through April 30, 2021, the members of the Audit Committee were Messrs. Murphy (chair), Slayton and Wiegand. Currently, members of the Audit Committee are Messrs. Murphy (chair), Jangda and Wiegand. Sonic's Board of Directors has determined that all members of Sonic's Audit Committee are "independent" as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act and as defined under Nasdaq listing standards. The Audit Committee provides assistance to the Board in fulfilling its oversight responsibility including: (i) internal and external financial reporting, (ii) risks and controls related to financial reporting, and (iii) the internal and external audit process. The Audit Committee is also responsible for recommending to the Board the selection of our independent public accountants and for reviewing all related party transactions. The Audit Committee met five times in Fiscal 2020. A copy of the charter of the Audit Committee is available on Sonic's website.

Sonic's Board of Directors has determined that, due to his experience serving in senior financial roles at several companies as well as his degree in accounting and designation as a certified public accountant, Mr. Murphy meets the definition of audit committee financial expert as that term is defined under the rules of the Securities and Exchange Commission. The members of the Audit Committee also meet the Nasdaq Stock Market requirements regarding the financial sophistication and the financial literacy of members of the Audit Committee.

The Compensation Committee consists of Messrs. Burish (chair) and Wiegand. The Board of Directors has determined that all of the members of the Compensation Committee are "independent" as defined under Nasdaq listing standards. The Compensation Committee makes recommendations to the Board with respect to salaries of employees, the amount and allocation of any incentive bonuses among the employees, and the amount and terms of stock options to be granted to executive officers. The Compensation Committee met once in Fiscal 2020. A copy of the charter of the Compensation Committee is available on Sonic's website.

The Nominations Committee consists of Messrs. Burish (chair) and Wiegand. The Board of Directors has determined that all of the members of the Nominations Committee are "independent" as defined under Nasdaq listing standards. The purpose of the Nominations Committee is to evaluate and recommend candidates for election as directors, make recommendations concerning the size and composition of the Board of Directors, develop specific criteria for director independence, and assess the effectiveness of the Board of Directors. Our Board of Directors has adopted a charter for the Nominations Committee, which is available on Sonic's website. The Nominations Committee will review all candidates in the same manner regardless of the source of the recommendation. In recommending candidates for election to the Board of Directors, the Nominations Committee reviews each candidate's qualifications, including whether a candidate possesses any of the specific qualities and skills desirable in certain members of the Board of Directors. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates as appropriate. Generally, the Nominations Committee will consider various criteria in considering whether to make a recommendation. These criteria include expectations that directors have substantial accomplishments in their professional backgrounds and are able to make independent, analytical inquiries and exhibit practical wisdom and mature judgment. Director candidates should possess the highest personal and professional ethics, integrity and values, be committed to promoting the long-term interest of our stockholders and be able and willing to devote the necessary time to carrying out their duties and responsibilities as members of the Board. While the Board of Directors has not adopted a policy regarding diversity, we also believe our directors should come from diverse backgrounds and experience bases in order to promote the representation of diverse views on the Board of Directors. Stockholder recommendations of candidates for Board membership will be considered when submitted to Corporate Secretary, Sonic Foundry, Inc., 222 W. Washington Ave., Madison, WI 53703. When submitting candidates for nomination to be elected at Sonic's annual meeting of stockholders, stockholders must also follow the notice procedures and provide the information required by Sonic's bylaws.

In particular, for a stockholder to nominate a candidate for election at the 2021 Annual Meeting of Stockholders, the nomination must be delivered or mailed to and received by Sonic's Secretary between February 24, 2022 and March 26, 2022 (or, if the 2021 annual meeting is advanced by more than 30 days or delayed by more than 60 days from June 24, 2022, not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth calendar day following the date on which public announcement of the date of the annual meeting is first made). The nomination must include the same information as is specified in Sonic's bylaws for stockholder nominees to be considered at an annual meeting, including the following:

- The stockholder's name and address and the beneficial owner, if any, on whose behalf the nomination is proposed;
- The stockholder's reason for making the nomination at the annual meeting, and the signed consent of the nominee to serve if elected;
- The number of shares owned by, and any material interest of, the record owner and the beneficial owner, if any, on whose behalf the record owner is proposing the nominee;
- A description of any arrangements or understandings between the stockholder, the nominee and any other person regarding the nomination; and

- Information regarding the nominee that would be required to be included in Sonic's proxy statement by the rules of the Securities and Exchange Commission, including the nominee's age, business experience for the past five years and any other directorships held by the nominee.

DIRECTORS COMPENSATION

Our directors who are not also our full-time employees, receive an annual retainer of $10,000 in addition to a fee of $750 for attendance at each meeting of the Board of Directors and $500 per committee meeting attended, other than special committee meetings for which members receive $1,000 per committee meeting attended. In addition, the chair of the Audit Committee receives an Audit Committee annual retainer of $4,000 and the chair of the Compensation Committee receives a $1,500 Compensation Committee annual retainer. Mr. Burish receives an annual retainer of $17,500 as compensation for his services as Chair of the Board of Directors. The total fee compensation earned by the five non-employee directors combined in Fiscal 2020 was $144,750. When traveling from out-of-town, the members of the Board of Directors are also eligible for reimbursement for their travel expenses incurred in connection with attendance at Board meetings and Board Committee meetings. Directors who are also employees do not receive any compensation for their participation in Board or Board Committee meetings.

Pursuant to the 2008 Sonic Foundry Non-Employee Amended Directors Stock Option Plan (the “Directors Plan”) we grant to each non-employee director who is reelected or who continues as a member of the Board of Directors at each annual stockholders meeting a stock option to purchase 2,000 shares of Common Stock. Further, the chair of our Audit Committee receives an additional stock option grant to purchase 500 shares of Common Stock per year pursuant to Sonic’s Non-Employee Amended Directors Stock Option Plan.

The exercise price of each stock option granted was equal to the market price of Common Stock on the date the stock option was granted. Stock options issued under the Directors Plan vest fully on the first anniversary of the date of grant and expire after ten years from date of grant. An aggregate of 150,000 shares are reserved for issuance under the Directors Plan.

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

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

The following table summarizes cash and equity compensation provided our non-employee directors during the fiscal year ended September 30, 2020.

Name (a)	Fees Earned Or Paid In Cash ($)(1) (b)	Stock Awards ($)(2) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($) (f)	All Other Compensation ($) (g)	Total ($) (h)
Mark D. Burish	2,750	30,500	—	—	—	—	33,250
Frederick H. Kopko	13,750	—	—	—	—	—	13,750
Nelson A. Murphy	37,250	—	—	—	—	—	37,250
David F. Slayton	32,250	—	—	—	—	—	32,250
Brian T. Wiegand	16,750	—	—	—	—	—	16,750
Gary R. Weis	11,500	—	—	—	—	—	11,500

(1) The amount reported in column (b) is the total of retainer fees and meeting attendance fees paid in cash.
(2) The amount reported in column (c) is the total of retainer fees and meeting attendance fees awarded in common stock.

EXECUTIVE OFFICERS OF SONIC

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

Joe Mozden, age 58, was appointed by the Board of Directors to serve as the Company's Chief Executive Officer, effective September 14, 2020. For further information regarding Mr. Mozden, please refer to "Directors Continuing in Office".

Kelsy Boyd, age 54, served as Chief Financial Officer from June 1, 2020 through February 2021. Prior to her appointment as Chief Financial Officer she was Executive Vice-President of Finance. She has more than 25 years of financial leadership and consulting experience in the digital media, manufacturing, agriculture and government sectors. Prior to joining Sonic, she provided controller-level consulting services to several private companies between 2018 and 2019. She also served as Finance Director for a municipality from 2015-2017, and as the Chief Financial Officer for a private manufacturing company from 2006-2014. From 1996 to 2003 she had served in various roles for Sonic, including Controller and Senior Director of Operations. She received her BBA in Finance and Accounting from the University of North Dakota, and is a Certified Public Accountant.

Robert M. Lipps, age 50, has been Executive Vice President of Sales since April 2008, joining Sonic Foundry in April 2006 as Vice President of International Sales and assuming expanded responsibility for U.S. central sales in 2007. Mr. Lipps leads the company's global sales organization including oversight of domestic, international and channel sales. He holds 15 years of sales leadership, business development and emerging market entry expertise in the technology and manufacturing sectors, including sales and channel management. From January 2004 to March 2006 he served as General Manager of Natural Log Homes LLC, a New Zealand based manufacturer of log homes. From July 1999 to Dec 2002 he served as Latin America Regional Manager of Adaytum, a software publisher of planning and performance management solutions, (acquired by Cognos Software, an IBM Company, in January 2003) and from May 1996 to July 1999 he served as International Sales Manager for Persoft, a software publisher of host access and mainframe connectivity solutions (acquired by Esker software in 1998). Mr. Lipps has a B.S. degree in Marketing from the University of Wisconsin at La Crosse.

Kenneth A. Minor, age 59, has been our Interim Chief Financial Officer and Secretary since March 2021. Mr. Minor previously served as our Chief Financial Officer from June 1997 through May 2020. Mr. Minor provides fractional CFO and other financial consulting services through Spotlight CFO Services, a firm he founded in August 2019. Mr. Minor is a certified public accountant and has a B.B.A. degree in accounting from Western Michigan University.

Michael Norregaard, age 59, served as Chief Executive Officer from May 2019 to September 2020 and joined the Company in January 2013. During Mr. Norregaard's tenure with the Company he served in various sales and operations roles including as Chief Operating Officer, Vice President of Business Development and Senior Vice President of Sales Operations. From 2007 to January 2013 Mr. Norregaard served as Managing Director / Divisions Director Outsourcing Services for Logica PLC, a multinational IT and management consulting company headquartered in the United Kingdom. Prior to his role with Logica, Mr. Norregaard held various other executive roles in European technology companies as well as client manager and sales executive at IBM and general manager at AT&T. Mr. Norregaard has a Bachelor of Business from the Copenhagen Business School and a Master of Social Economics from the University of Copenhagen.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows information known to us about the beneficial ownership of our Common Stock as of May 17, 2021, by each stockholder known by us to own beneficially more than 5% of our Common Stock, each of our executive officers named in the Summary Compensation Table ("Named Executive Officers"), each of our directors, and all of our directors and executive officers as a group. Unless otherwise noted, the mailing address for these stockholders is 222 West Washington Avenue, Madison, Wisconsin 53703.

Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting or investment power with respect to shares. Shares of common stock issuable upon the exercise of stock options or warrants exercisable within 60 days after May 17,2021, which we refer to as Presently Exercisable Options or Presently Exercisable Stock Warrants, are deemed outstanding for computing the percentage ownership of the person holding the options but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. The inclusion of any shares in this table does not constitute an admission of beneficial ownership for the person named below.

Name of Beneficial Owner(1)	Number of Shares of Class Beneficially Owned	Percent of Class(2)
Common Stock		
Mark D. Burish(3) 33 East Main St. Madison, WI 53703	3,321,284	41.1%
Andrew D. Burish(4) 8020 Excelsior Drive Madison, WI, 53717	1,041,929	12.6
Joe Mozden, Jr.(5)	69,500	*
Kenneth A. Minor	16,520	*
Robert M. Lipps(6)	162,235	2.0
Michael Norregaard (7)	19,500	*
Kelsy Boyd(8)	26,250	*
Gary R. Weis(9)	387,359	4.6
Frederick H. Kopko, Jr.(10) 29 South LaSalle Street Chicago, IL 60603	95,287	1.2
Brian T. Wiegand (11) 1600 Aspen Commons Middleton, WI 53562	84,090	1.0
Nelson A. Murphy(12) 2300 W. Innes St. Salisbury, NC 28144	60,008	*
David F. Slayton(13) 701 Washington Ave N., Suite 400 Minneapolis, MN 55401	62,667	*
Taha Jangda 3827 Linklea Drive Houston, TX 77025	—	*
William St. Lawrence	—	*
All current Executive Officers and Directors as a Group (9 persons)(14)	4,304,700	49.7%

* less than 1%

(1) Sonic believes that the persons named in the table above, based upon information furnished by such persons, except as set forth in notes (5) where such information is based on a Schedule 13G, have, except as set forth in note (5), sole voting and dispositive power with respect to the number of shares indicated as beneficially owned by them.
(2) Applicable percentages are based on 8,064,838 shares outstanding, adjusted as required by rules promulgated by the Securities and Exchange Commission.
(3) Includes 16,000 shares subject to Presently Exercisable Options.
(4) Includes 232,558 shares subject to Presently Exercisable Common Stock Warrants. Information is based on information provided to the Company on April 30, 2021.
(5) Includes 57,000 shares subject to Presently Exercisable Options.
(6) Includes 160,160 shares subject to Presently Exercisable Options.
(7) Includes 12,500 shares subject to Presently Exercisable Options.
(8) Includes 16,250 shares subject to Presently Exercisable Options.
(9) Includes 291,473 shares subject to Presently Exercisable Options.
(10) Includes 16,000 shares subject to Presently Exercisable Options.
(11) Includes 18,000 shares subject to Presently Exercisable Options.
(12) Includes 7,000 shares subject to Presently Exercisable Options.
(13) Includes 6,000 shares subject to Presently Exercisable Options.
(14) Includes an aggregate of 600,383 Presently Exercisable Options

Compensation Discussion and Analysis

Introduction

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

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

Overview and Objectives of our Executive Compensation Program

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

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

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

Market Competitiveness

The Committee's target is for total cash compensation to average between the 50th and 75th percentile of published compensation data derived from two sources: (i) a peer group of companies that are in our industry, competitors for key talent, or with similar financial characteristics; and (ii) published market survey data for companies within our revenue range. The peer group data was obtained from the most recently filed proxy statement of 12 publicly-traded technology companies with annual revenues ranging from approximately $10 million to just under $100 million; market capitalization from approximately $10 million to approximately $200 million and approximately 300 employees or less. The following companies comprised the peer group for the study: Adesto Technologies, Corp, Asure Software Inc., Bsquare Corporation, Datawatch Corp., FalconStor Software Inc., GlobalSCAPE Inc., Glowpoint Inc., GSE Systems Inc., Inuvo Inc., MAM Software Group, Inc., Qumu Corporation and Smith Micro Software Company. Given competitive recruiting pressures, the Committee retains its discretion to deviate from this target under appropriate circumstances. The Committee periodically receives updates of the published compensation data

Pay for Performance

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

Peer Group Analysis

Compensation data came from a peer group of twelve public companies that we consider similar to our market for sales, or for key talent, or with similar financial or other characteristics such as number of employees. The companies in the peer group are described above.

Components of Executive Compensation

Base Salary

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

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

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

The Committee met on November 11, 2019 for consideration of base wage changes for Messrs. Norregaard and Lipps. At the recommendation of management, the Committee agreed to maintain compensation for Messrs. Norregaard and Lipps at $281,750 and $250,000, respectively. The Committee further agreed to potential bonus awards based on achievement of target adjusted earnings before interest, taxes and depreciation and amortization ("AEBITDA") achievement for fiscal 2020 of $65,000 and $35,000, respectively.

Annual Performance-Based Variable Compensation

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

Selection of Performance Metrics. For fiscal 2020, the Compensation Committee designed an incentive program driven by achievement of a combination of target adjusted EBTDA and customers billings results. Messrs. Norregaard and Lipps were included in the plan.

Payout Based on Performance Against Goals. For fiscal 2020 the Company's performance, as evaluated by the Compensation Committee, lead to the determination Messrs. Norregaard and Lipps earned $87,750 and $50,400, respectively.

Stock Options

The Committee has a long-standing practice of providing long-term incentive compensation grants to the executive officers. The Committee believes that such grants, in the form of stock options, help align our executive officers' interests with those of Sonic's stockholders. All stock options have been granted under our 1995 Stock Option Plan, the 1999 Non-Qualified Plan or the 2009 Stock Incentive Plan ("Employee Plans"). All but the 2009 Stock Incentive Plan and the 2020 Equity Incentive Plan are now terminated.

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

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

No option grants were made to Messrs. Norregaard or Lipps in fiscal 2020. Additionally, an option to purchase 10,000 shares were granted to Ms. Boyd in December 2019.

Health and Welfare Benefits

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

Employment Agreements

The Company has employment agreements with Messrs. Norregaard and Lipps. Pursuant to such agreements, Messrs. Norregaard and Lipps receive annual base salaries subject to increase each year at the discretion of the Board of Directors. Messrs. Norregaard and Lipps are also entitled to incidental benefits of employment under the agreements. Each of the employment agreements provides that a cash severance payment be made upon termination, other than for cause, or upon death or disability. In the case of Mr. Norregaard, such cash severance is equal to his then current base compensation paid bi-weekly over a twelve-month period. In the case of Mr. Lipps, such cash severance is equal to the highest cash compensation paid in any of the last three fiscal years immediately prior to termination. In addition, Messrs. Norregaard and Lipps will receive immediate vesting of all previously unvested common stock and stock options and have the right to voluntarily terminate their employment, and receive the same severance arrangement detailed above following (i) any "person" becoming a " beneficial" owner of stock of Sonic Foundry representing 50% or more of the total voting power of Sonic Foundry's then outstanding stock; or, (ii) Sonic Foundry is acquired by another entity through the purchase of substantially all of its assets or securities; or (iii) Sonic

Foundry is merged with another entity, consolidated with another entity or reorganized in a manner in which any "person" is or becomes a "beneficial" owner of stock of the surviving entity representing 50% or more of the total voting power of the surviving entity's then outstanding stock; and, within two years and ninety days of any such event, Messrs. Norregaard or Lipps, as the case may be, is demoted without cause or his title, authority, status or responsibilities are substantially altered, their salary is reduced or the principal office is more than 50 miles outside the Madison metropolitan area. In the case of Mr. Norregaard, it is not considered a termination of any kind, including but not limited to a "voluntary termination", "involuntary termination", "constructive termination" or "termination without cause" if the Board of Directors elects to hire a new Chief Executive Officer in replacement of Norregaard, provided that the Board of Directors offers to engage Norregaard as Chief Operating Officer pursuant to substantially the same terms and conditions. Pursuant to the employment agreements, each of Messrs. Norregaard and Lipps has agreed not to disclose our confidential information and not to compete against us during the term of his employment agreement and for a period of one year thereafter. Such non-compete clauses may not be enforceable, or may only be partially enforceable, in state courts of relevant jurisdictions.

If Sonic terminated Mr. Lipps on September 30, 2020, (not for cause), or if Mr. Lipps elected to terminate his employment following a demotion or alteration of duties on September 30, 2020, and a change of control as defined in the employment agreements had occurred, Sonic would be obligated to pay $311,672 (based on fiscal 2018 compensation which was the fiscal year with highest cash compensation in three-year period preceding September 30, 2020 for Mr. Lipps). In addition, any non-vested rights of Messrs. Norregaard and Lipps under the Employee Plans, would vest as of the date of employment termination. There would be no additional value of accelerated vesting of the options under these circumstances for Mr. Lipps as all of his outstanding options are exercisable.

Effective August 21, 2020, Mr. Norregaard no longer served as Chief Executive Officer of the Company. Effective June 1, 2020, Mr. Minor no longer served as Chief Financial Officer of the Company, although he was retained again as Interim Chief Financial Officer effective March 1, 2021.

Effective September 14, 2020, the Company entered into an employment agreement with Joe Mozden Jr. for Mr. Mozden to serve as Chief Executive Officer of the Company. Pursuant to such employment agreement, Mr. Mozden receives an annual base salary of $300,000, subject to revision each year at the discretion of the Board of Directors. Mr. Mozden will also receive a bonus of up to $150,000 provided that the Company meets certain metrics to be determined, but which will be primarily based on the Company achieving profitability. The employment agreement further provides that, during the term thereof, the Company will nominate Mr. Mozden to serve as a director of the Company. In addition, pursuant to the employment agreement, Mr. Mozden has also received (i) an initial stock option grant of options to purchase 200,000 shares of common stock, exercisable at the market price of the common stock on the date of grant, which vest ratably over a three (3) year period, and (ii) performance options to purchase 150,000 shares of common stock, exercisable at the market price of the common stock on the date of grant, which vest upon achievement of performance metrics to be determined between the Company and Mr. Mozden. Mr. Mozden is also entitled to incidental benefits of employment under the agreement. The employment agreement further provides that if Mr. Mozden's employment by the Company is terminated without cause, an amount equal to the sum of (i) Mr. Mozden's previously-determined performance bonus, but only if all performance-based metrics set forth in such bonus have been fully met prior to the date of termination, and (ii) Mr. Mozden's base compensation earned over the previous twelve (12) months, shall be paid through equal bi-weekly installments made over a twelve-month period beginning on the day immediately following the date of Mr. Mozden's termination of employment (the "Severance Period"). In addition, Mr. Mozden will receive immediate vesting of all previously unvested common stock and stock options and have the right to voluntarily terminate his employment, and receive the same severance arrangement detailed above, if his employment is terminated within thirty (30) days following a "Change of Control" or within thirty (30) days following an event constituting "Good Reason". A "Change of Control" is defined in the employment agreement as the following (i) any "person" who does not currently have 50% or more of the total voting power of Sonic Foundry's then outstanding stock becomes a " beneficial" owner of stock of Sonic Foundry representing 50% or more of the total voting power of Sonic Foundry's then outstanding stock; or, (ii) Sonic Foundry is acquired by another entity through the purchase of substantially all of its assets or securities; or (iii) Sonic Foundry is merged with another entity, consolidated with another entity or reorganized in a manner in which any "person" is or becomes a "beneficial" owner of stock of the surviving entity representing 50% or more of the total voting power of the surviving entity's then outstanding stock. "Good Reason" is defined in the Employment Agreement as follows: a material diminution without cause of Mr. Mozden's title, authority, status, duties or responsibilities; a reduction in Mr. Mozden's's salary in excess of twenty-five percent (25%) in any fiscal year; a material breach by the Company of the employment agreement, or; the principal office of the Company is relocated to a location which is more than 50 miles outside the Madison metropolitan area. Pursuant to the employment agreement, Mr. Mozden has agreed not to disclose the Company's confidential information and not to compete against the Company during the term of his employment agreement and for a period of one year thereafter. Such non-compete clause may not be enforceable, or may only be partially enforceable, in state courts of relevant jurisdictions.

Effective June 1, 2020, the Company entered into a employment agreement with Kelsy Boyd for Ms. Boyd to serve as Chief Financial Officer of the Company. Pursuant to such employment agreement, Ms. Boyd receives an annual base salary of $200,000. Ms. Boyd will also receive a bonus of up to $50,000 provided that the Company meets certain metrics to be determined, but which will be primarily based on the Company's earnings. In addition, pursuant to the employment agreement, Ms. Boyd has also received an initial stock option grant of options to purchase 40,000 shares of common stock, exercisable at the market price of the common stock on the date of grant, of which options to purchase 10,000 shares will vest six months from the Effective Date, and of which options to purchase 30,000 shares will vest ratably over a three (3) year period. The employment agreement further provides that if Ms. Boyd's employment by the Company is terminated without cause, an amount equal to Ms. Boyd's base compensation earned over the previous six (6) months, shall be paid through equal bi-weekly installments made over a twelve-month period beginning on the day immediately following the date of Ms. Boyd's termination of employment (the "Severance Period"). In addition, Ms. Boyd will have the right to voluntarily terminate her employment, and receive the same severance arrangement detailed above following (i) any "person" becoming a " beneficial" owner of stock of Sonic Foundry representing 50% or more of the total voting power of Sonic Foundry's then outstanding stock; or, (ii) Sonic Foundry is acquired by another entity through the purchase of substantially all of its assets or securities; or (iii) Sonic Foundry is merged with another entity, consolidated with another entity or reorganized in a manner in which any "person" is or becomes a "beneficial" owner of stock of the surviving entity representing 50% or more of the total voting power of the surviving entity's then outstanding stock; and, within sixty days of such event, one of the following occurs: a material diminution of Ms. Boyd's title, authority, status, duties or responsibilities; a reduction in Ms. Boyd's salary; a material breach by the Company of the employment agreement, or; the principal office of the Company is relocated to a location which is more than 50 miles outside the Madison metropolitan area. Pursuant to the employment agreement, Ms. Boyd has agreed not to disclose our confidential information and not to compete against us during the term of his employment agreement and for a period of one year thereafter. Such non-compete clause may not be enforceable, or may only be partially enforceable, in state courts of relevant jurisdictions.

Effective February 26, 2021, Ms. Boyd and the Company entered into a Retirement and Transition Agreement with Ms. Boyd no longer served as Chief Financial Officer of the Company. The agreement made a one-time payment of $50,000 to Ms. Boyd upon execution of the agreement and accelerated vesting of outstanding 2,917 stock options to purchase common stock at an exercise price of $1.30 per share. Mr. Boyd agreed to provide services relating to transition of her duties to her successor as well as services reasonably requested through April 2, 2021 and continue at her current rate of base compensation.

Personal Benefits

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

Internal Revenue Code Section 162(m)

Internal Revenue Code Section 162(m) limits the ability of a public company to deduct compensation in excess of $1 million paid annually to each of the Chief Executive Officer and each of the other executive officers named in the Summary Compensation Table. There are exemptions from this limit, including compensation that is based on the attainment of performance goals that are established by the Committee and approved by the Company stockholders. No executive officer was affected by this limitation in fiscal 2020.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of Sonic Foundry has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's 2021 Proxy Statement included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020, as amended and filed in a Form 10-K.
Proxy Statement.

COMPENSATION COMMITTEE

Mark D. Burish, Chair
Brian T. Wiegand

Summary Compensation

The following table sets forth the compensation of our principal executive officer, our principal financial officer and our other executive officer for the fiscal year ended September 30, 2020.

Name and Principal Position (a)(4)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($)(1) (f)	Non-Equity Incentive Plan Compensation ($)(2) (g)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($) (h)	All Other Compen-sation ($)(3) (i)	Total ($) (j)
Michael Norregaard (4)	2020	260,077	87,750	—	—	—	—	38,861	386,688
Chief Executive Officer	2019	250,916	—	—	—	—	—	11,848	262,368
Joe Mozden, Jr. (5)	—	—	—	—	—	—	—	—	—
Kelsy Boyd (6) Chief Financial Officer and Secretary	2020	130,231	—	—	—	—	5,600	3,880	139,480
Robert M. Lipps	2020	249,171	50,400	—	—	—	—	9,967	309,538
Executive Vice	2019	242,810	—	—	—	34,077	—	9,100	285,987
President - Sales	2018	242,810	—	—	—	68,862	—	8,614	320,286

(1) The option awards in column (f) represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for stock options granted during the fiscal year. The assumptions and methodology used in calculating the compensation expense of the option awards are provided in Sonic's Form 10-K. See Note 1, "Accounting for Stock Based Compensation" in the Notes to the Consolidated Financial Statements in Sonic's Form 10-K. The amounts in this column represent value attributed to the awards at the date of grant and not necessarily the actual value that will be realized by the executive. There can be no assurance that the options will ever be exercised (in which case no value will be realized by the executive) or that the value on exercise will equal the ASC Topic 718 value.

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

(3) The amount shown under column (i) for the fiscal year 2020 includes Sonic's matching contribution under our 401(k) plan of $10,403, $3,880 and $9,968 for Mr. Norregaard, Ms. Boyd and Mr. Lipps. Mr. Norregaard received a car allowance of which the taxable personal portion was $6,785. Mr. Norregaard also received a severance of $21,673.

(4) Mr. Norregaard was appointed Chief Operating Officer on March 4, 2019 and Chief Executive Officer on April 22, 2019, following the retirement of Mr. Weis as Chief Executive Officer. Mr. Norregaard ceased serving as CEO on Aug. 21, 2020.

(5) Mr. Mozden was appointed CEO on September 14, 2020 and received no compensation in fiscal 2020.

(6) Ms. Boyd retired as CFO effective February 26, 2021.

Grants of Plan-Based Awards

The following table shows the plan-based awards granted to the Named Executive Officers during fiscal 2020.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name (a)	Grant Date (b)	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Threshold ($) (f)	Target ($) (g)	Maximum ($) (h)	All other stock awards: Number of Shares of stock or units (#) (i)	All other option awards: Number of Securities Underlying Options (#) (j)	Exercise or base price of option awards ($/Sh) (1) (k)	Grant Date fair Value of Stock and option awards ($) (2) (l)
Kelsy Boyd	12/30/19	—	—	—	—	—	—	—	10,000	1.30	5,600

(1) Sonic grants employee stock options with exercise prices equal to the closing stock price on the date of grant.

(2) The amount reported in column (l) represents the grant date fair value of the award following the required FASB ASC Topic 718 compensation methodology. Grant date fair value is calculated using the Lattice method. See Note 1, "Accounting for Stock Based Compensation" in the Notes to the Consolidated Financial Statements in Sonic's Form 10-K for the fiscal year ended September 30, 2019 for an explanation of the methodology and assumptions used in FASB ASC Topic 718 valuation. With respect to the option grants, there can be no assurance that the options will ever be exercised (in which case no value will be realized by the executive) or that the value on exercise will equal the FASB ASC Topic 718 value.

Sonic grants options to its executive officers under our employee stock option plans. As of September 30, 2020, options to purchase a total of 1,902,346 shares were outstanding under the plans, and options to purchase 1,680,502 shares remained available for grant thereunder.

Outstanding Equity Awards at Fiscal Year-End

The following table shows information concerning outstanding equity awards as of September 30, 2020 held by the Named Executive Officers.

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (1) (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1) (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (1) (e)	Option Expiration Date (1) (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (j)
Michael Norregaard	5,000	0	None	3.32	08/21/2021				
	2,500	0		2.24	08/21/2021				
	2,500	0		2.24	08/21/2021				
	2,500	0		1.39	08/21/2021				
	11,250	0		1.39	08/21/2021				
	11,250	0		0.66	08/21/2021				
Robert M. Lipps	6,000	0	None	5.26	12/02/2019				
	40,000	0		7.80	10/17/2022				
	27,816	0		7.17	11/05/2025				
	41,273	0		4.75	12/27/2026				
	34,047	17,024		2.49	01/17/2028				
Kelsy Boyd	10,000	0	None	1.30	12/30/2029				

(1) All options were granted under our stockholder approved Employee Stock Option Plan. All unexercisable options listed in the table become exercisable over a three-year period in equal annual installments beginning one year from the date of grant.

Option Exercises and Stock Vested

The following table shows information concerning option exercises in fiscal 2020 by the Named Executive Officers.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
None				

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	1,707,515	$ 5.09	967,117
Equity compensation plans not approved by security holders (2)	—	—	—
Total	1,707,515	$ 5.09	967,117

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

(2) Consists of the Non-Qualified Stock Option Plan. For further information regarding this plan, reference is made to Note 5 of the financial statements.

Compensation Committee Interlocks and Insider Participation

The members of the Executive Compensation Committee of Sonic's Board of Directors for fiscal 2020 were those named in the Executive Compensation Committee Report. No member of the Committee was at any time during fiscal 2020 or at any other time an officer or employee of Sonic Foundry, Inc.

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

PROPOSAL TWO: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors, upon the recommendation of the Audit Committee, has appointed the firm of Wipfli LLP ("Wipfli") as independent auditors to audit our financial statements for the year ending September 30, 2020, and has further directed that management submit the selection of independent public accountants for ratification by the stockholders at the Annual Meeting. Representatives of Wipfli are expected to be present at the Annual Meeting to respond to stockholders' questions and to have the opportunity to make any statements they consider appropriate.

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

The ratification of the appointment of Wipfli as independent public accountants requires the approval of a majority of the votes cast at the Annual Meeting.

Recommendation of Board of Directors

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

Relations with Independent Auditors

The Company, upon the recommendation of its audit committee has selected Wipfli, LLP ("Wipfli") as its independent auditor for the fiscal year ending September 30, 2021.

During the years ended September 30, 2020 and 2019, neither the Company nor its audit committee consulted Wipfli with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, as defined in Item 304(a)(2)(i) of Regulation S-K, for which was concluded an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue. Likewise, neither the Company nor the audit committee consulted Wipfli regarding any matter that was the subject of a disagreement or a reportable event, as defined in Item 304(a)(2)(ii) of Regulation S-K.

As stated in Proposal 2, the Board has selected Wipfli to serve as our independent auditors for the fiscal year ending September 30, 2021.

Audit services performed by Wipfli for Fiscal years 2020 and 2019 consisted of the examination of our financial statements, review of fiscal quarter results, and services related to filings with the Securities and Exchange Commission (SEC). We also retained Wipfli to perform certain audit related services associated with the audit of our benefit plan. All fees paid to Wipfli were reviewed, considered for independence and upon determination that such payments were compatible with maintaining such auditors' independence, approved by Sonic's audit committee prior to performance.

Audit services performed by BT for Fiscal 2019 consisted of certain audit related services associated with the audit of our benefit plan. All fees paid to BT were reviewed, considered for independence and upon determination that such payments were compatible with maintaining such auditors' independence, approved by Sonic's audit committee prior to performance.

Fiscal Years 2020 and 2019 Audit Firm Fee Summary

During fiscal years 2020 and 2019, we retained our principal accountants to provide services in the following categories and amounts:

	Years Ended September 30,	
	2020	2019
Baker Tilly Virchow Krause LLP		
Audit Fees	—	$30,000
Audit Related	—	—
Tax Fees	—	—
Wipfli LLP		
Audit Fees	276,135	360,723
Audit Related	10,850	10,500
Tax Fees	35,867	46,710

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

REPORT OF THE AUDIT COMMITTEE [1]

The Audit Committee's role includes the oversight of our financial, accounting and reporting processes, our system of internal accounting and financial controls and our compliance with related legal and regulatory requirements, the appointment, engagement, termination and oversight of our independent auditors, including conducting a review of their independence, reviewing and approving the planned scope of our annual audit, overseeing the independent auditors' audit work, reviewing and pre-approving any audit and non-audit services that may be performed by them, reviewing with management and our independent auditors the adequacy of our internal financial controls, and reviewing our critical accounting policies and the application of accounting principles. The Audit Committee held five meetings during fiscal 2020.

Messrs. Murphy, Slayton and Wiegand meet the rules of the SEC for audit committee membership and are "independent" as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act and under Nasdaq listing standards. A copy of the Audit Committee Charter is available on Sonic's website.

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

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

We have reviewed and discussed with our independent auditors, Wipfli, matters required to be discussed pursuant to Auditing Standard No. 16 (Communications with Audit Committees) as promulgated by the Public Company Accounting Oversight Board. We have received from the auditors a formal written statement describing the relationships between the auditor and Sonic that might bear on the auditor's independence consistent with applicable requirements of the Public Company Accounting Oversight Board. We have discussed with Wipfli matters relating to its independence, including a review of audit related fees, and considered the compatibility of non-audit services with the auditors' independence.

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

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

Based on the reviews and discussions referred to above and our review of Sonic's audited financial statements for fiscal 2020, we recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2020, for filing with the SEC effective December 22, 2020.
Respectfully submitted,

AUDIT COMMITTEE
Nelson A. Murphy, Chair
David F. Slayton
Brian T. Wiegand

CERTAIN TRANSACTIONS

Frederick H. Kopko, Jr., a director and stockholder of Sonic Foundry, is a partner in McBreen & Kopko. Pursuant to the 2008 Non-Employee Directors Plan, Mr. Kopko was granted options to purchase 18,000 shares of Common Stock at exercise prices ranging from $1.39 to $10.07. During fiscal 2020, we paid the Chicago law firm of McBreen & Kopko certain compensation for legal services rendered subject to standard billing rates.

Section 16(a) Beneficial Ownership Reporting Compliance

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

Code of Ethics

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

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

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

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

STOCKHOLDER PROPOSALS FOR 2022 ANNUAL MEETING OF STOCKHOLDERS

Requirements for Stockholder Proposals to be Considered for Inclusion in Sonic's Proxy Materials.
Stockholders of Sonic may submit proposals on matters appropriate for stockholder action at meetings of Sonic's stockholders in accordance with Rule 14a-8 promulgated under the Securities Exchange Act of 1934. For such proposals to be included in Sonic's proxy materials relating to its 2022 Annual Meeting of Stockholders, all applicable requirements of Rule 14a-8 must be satisfied and such proposals must be received by Sonic no later than the anniversary date of 120 days prior to the date of this proxy statement (January 17, 2022). Such proposals should be delivered to Corporate Secretary, Sonic Foundry, Inc., 222 West Washington Avenue, Madison, Wisconsin 53703.

Requirements for Stockholders Proposals to be Brought Before the Annual Meeting.
Sonic's bylaws provide that, except in the case of proposals made in accordance with Rule 14a-8, for stockholder nominations to the Board of Directors or other proposals to be considered at an annual meeting of stockholders, the stockholder must have given timely notice thereof in writing to the Secretary not less than ninety nor more than one hundred twenty calendar days prior to the anniversary of the date on which Sonic held its immediately preceding annual meeting of stockholders. To be timely for the 2022 Annual Meeting of Stockholders, a stockholder's notice must be delivered or mailed to and received by Sonic's Secretary at the principal executive offices of Sonic between February 24, 2022 and March 26, 2022. However, in the event that the annual meeting is advanced by more than 30 days or delayed by more than 60 days from June 24, 2022, to be timely, notice by the stockholders must be so received not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth calendar day following the date on which public announcement of the date of the annual meeting is first made. In no event will the public announcement of an adjournment of an annual meeting of stockholders commence a new time period for the giving of a stockholder's notice as provided above. A stockholder's notice to Sonic's Secretary must set forth the information required by Sonic's bylaws with respect to each matter the stockholder proposes to bring before the Annual Meeting.

In addition, the proxy solicited by the Board of Directors for the 2022 Annual Meeting of Stockholders will confer discretionary authority to vote on (i) any proposal presented by a stockholder at that meeting for which Sonic has not been provided with notice on or prior to the anniversary date of 45 days prior to the date of this proxy statement (April 2, 2022) and (ii) any other proposal, if the 2022 proxy statement briefly describes the matter and how management's proxy holders intend to vote on it, and if the stockholder does not comply with the requirements of Rule 14a-4(c)(2) under the Securities Exchange Act of 1934. Notwithstanding the above, all stockholder proposals must comply with the provisions of Sonic's bylaws.

OTHER MATTERS

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

GENERAL

A copy of our Annual Report to Stockholders for the fiscal year ended September 30, 2020 is being mailed, together with this Proxy Statement, to each stockholder. Additional copies of such Annual Report and of the Notice of Annual Meeting, this Proxy Statement and the accompanying proxy may be obtained from us. We will, upon request, reimburse brokers, banks and other nominees, for costs incurred by them in forwarding proxy material and the Annual Report to beneficial owners of Common Stock. In addition, directors, officers and regular employees of Sonic and its subsidiaries, at no additional compensation, may solicit proxies by telephone, telegram or in person. All expenses in connection with soliciting management proxies for this year's Annual Meeting, including the cost of preparing, assembling and mailing the Notice of Annual Meeting, this Proxy Statement and the accompanying proxy are to be paid by Sonic.

Sonic will provide without charge (except for exhibits) to any record or beneficial owner of its securities, on written request, a copy of Sonic's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended September 30, 2020, including the financial statements and schedules thereto. Exhibits to said report, and exhibits to this proxy statement, will be provided upon payment of fees limited to Sonic's reasonable expenses in furnishing such exhibits. Written requests should be directed to Investor Relations, 222 West Washington Avenue, Madison, Wisconsin 53703. We also make available, free of charge, at the "Investor Information" section of our website, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, our proxy statement, amendments and exhibits to such reports as soon as practicable after the filing of such reports, exhibits and proxy statements with the Securities and Exchange Commission.

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

By Order of the Board of Directors,

May 17, 2021

Ken Minor, Secretary

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

FORM 10-K

(Mark One)

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

For the fiscal period ended September 30, 2020
OR

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

Commission File Number 000-30407

SONIC FOUNDRY, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**39-1783372**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
222 W. Washington Ave, Madison, WI 53703	**(608) 443-1600**
(Address of principal executive offices)	**(Issuer's telephone number)**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common stock par value $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a small reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately $12,023,119.

The number of shares outstanding of the registrant's common equity was 7,960,775 as of December 16, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2021 Annual Meeting of Stockholders are incorporated by reference into Part III. A definitive Proxy Statement pursuant to Regulation 14A will be filed with the Commission for required sections.

Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2020

TABLE OF CONTENTS

This annual report on Form 10-K (this "Report") contains statements that are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and its rules and regulations (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, and its rules and regulations (the "Exchange Act"). When used in this Report, the words "anticipate", "expect", "plan", "believe", "seek", "estimate" and similar expressions are intended to identify such forward-looking statements. These are statements that relate to future periods and include, but are not limited to, statements about the features, benefits and performance of our Rich Media products, our ability to introduce new product offerings and increase revenue from existing products, expected expenses including those related to selling and marketing, product development and general and administrative, our beliefs regarding the health and growth of the market for our products, anticipated increase in our customer base, expansion of our products functionalities, expected revenue levels and sources of revenue, expected impact, if any, of legal proceedings, the adequacy of liquidity and capital resources, and expected growth in business. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, market acceptance for our products, our ability to attract and retain customers and distribution partners for existing and new products, our ability to control our expenses, our ability to recruit and retain employees, the ability of distribution partners to successfully sell our products, legislation and government regulation, shifts in technology, global and local business conditions, our ability to effectively maintain and update our products and service portfolio, the strength of competitive offerings, the prices being charged by those competitors, and the risks discussed elsewhere herein. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

PART I

ITEM 1. BUSINESS

Who We Are

Sonic Foundry (OTC Pink Sheets:SOFO) (the "Company") is a global leader in providing fully automated and integrated enterprise video solutions that address every phase of the video life cycle. Its Mediasite Video Platform automates the capture, management, and delivery of live and on-demand streaming videos for more than 5,200 educational institutions, corporations, health organizations and government entities in over 65 countries around the world.

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

Challenges We Address Through Our Product Offering

Every organization faces a fundamental need to share information and communicate efficiently. Universities and colleges connect instructors with students to educate and prepare the next generation. Businesses strive for effective communication and collaboration among employees to provide value to customers. Healthcare associations must deliver important information to the public and continuing medical education to professionals. Government agencies must keep partners, stakeholders and constituents informed to operate effectively.

With the onset of COVID-19 in early 2020, schools and businesses across the world have been forced into a digital-first world where video adoption and utilization is at the core of every remote working and learning solution for education, communication and collaboration.

Mediasite Video Capture Solutions
Mediasite provides the following primary flexible hardware and software solutions to record and upload any video-based content from anywhere, automatically:

- **Mediasite RL Recorders:** The RL Series of built-in room appliances use schedule-based capture and advanced audio/video integration to fully automate high-quality video and content recording in lecture halls, training rooms, simulation labs and auditoriums. The room can be scheduled to automatically record and publish to Mediasite Video Platform, so instructors and speakers can focus on teaching and presenting as they are most comfortable, free from technology worries and confident that everything they say and present is being captured.
- **Mediasite ML Recorders:** The ML Series of portable recording devices is used to capture and stream broadcast-quality video. Designed for on-the-go webcasting, hybrid events, guest speakers and conferences, the ML's lightweight design moves easily from location to location and can be set up and ready to record in only a few minutes.
- **Mediasite RL Mini:** The Mini provides the automation and high-quality capture Mediasite is known for in a compact, affordable device. With the Mini, there's no need for AV in the room. Instructors simply plug in their laptop and camera and start teaching. The plug-and-play device makes it easy to build or expand automated lecture capture programs in community colleges, vocational-tech schools, small departments and even K12 classrooms.

- **Mediasite Mosaic:** Formerly called My Mediasite, Mosaic allows instructors, employees and students to create great looking videos, screencasts and slideshows from their computers or mobile devices with just one click. From demos and video training to flipped classes, lectures and assignments, everything to record, upload, manage and publish personal videos is in one simple-to-use tool, requiring no pro video skills

As a result of COVID, many of our customers switching to mainly remote work and teaching beginning in March 2020, the need for in-room video capture slowed. That, along with the uncertainty for higher education institutions regarding their financial outlook for a diminished return to campus in the fall semester caused a noticeable delay in room expansion. As a result, the Company saw a slow down in hardware orders during the summer months when campuses are usually busy upgrading their classrooms. Offsetting the decline in room recordings, software-based capture has significantly increased. Since mid-March 2020, the Company has seen a 123 percent increase in videos created and an 109 percent increase in live sessions.

Mediasite Video Management and Delivery Solutions
Mediasite Video Platform (MVP) is a scalable, reliable, and secure solution to manage, search, analyze, publish, and stream video content. With MVP government, businesses, and education institutions can:

- **Automatically publish video** to a learning management system (LMS), content management system (CMS), training portal or any website
- **Centrally manage** and secure any video
- **Create an enterprise or campus YouTube channel**
- **Deepen engagement** and improve learning with quizzing, annotations, comments, polls, surveys and other interactive tools
- **Analyze viewing metrics** to measure learner engagement and outcomes
- **Search everything** with fully indexed audio, video and slide content
- **Stream live and on-demand** video to any device

On-Premises or Mediasite Video Cloud
Mediasite Video Platform (MVP) is available as either an On-Premises license or as a SaaS (Software as a Service) offering within our Mediasite Video Cloud. Customers can conveniently host and manage all their content with Mediasite Video Cloud, or use it as needed for large events to divert heavy viewing traffic from their on-premises Mediasite Video Platform. Our co-located and high availability data centers and experienced team successfully manage customers' cloud-based video streaming in a secure, fault-tolerant environment. During 2020, the Company made an investment in a new dual redundant, high availability data center in the United Kingdom, which went online at the end of September. The Company also began purchasing components to upgrade its existing US data centers, which is anticipated to go online during the first calendar quarter of 2021.

The investment in data center infrastructure was planned prior to the COVID crisis, however, the increased customer demand for additional storage may require further investment. Any further hardware investment required would be offset by an increase in revenue from hosting. There has been a significant increase in video content creation since the crisis started. In response to the prolific utilization of video conferencing systems like Zoom to record meetings and presentations, the Company developed and released an advanced integration to seamlessly automate workflow between Zoom, Mediasite Video Platform, and a school's LMS. This allows all video content to be edited and managed in one secure location regardless of how it was recorded.

Challenges We Address Through Our Service Offering

Mediasite Events Solutions
Mediasite Events provides live and on-demand webcasting services for conferences, hybrid events and high-profile broadcasts, supplying turnkey streaming solutions for hundreds of events each year. Fortune 500 companies, universities, associations, sporting events and charitable organizations use Mediasite Events to capture, produce, and deliver high-quality event experiences, both in-person and virtually.

Our Mediasite Events business, both in the United States (US) and Japan, was significantly impacted by COVID. In early March 2020, all near-term, in-person events started to cancel due to concerns over the virus. While our US team's in-person pipeline for the remainder of March and April shrunk to zero, they quickly replaced in-person events with virtual events. Ever since late March 2020, our US team has been helping customers continue to have industry-specific, high-quality events via our virtual events platform, which utilizes MVP technology. As in-person events eventually resume, we are optimistic that virtual events will be an ongoing part of, or an addition to, the in-person event industry.

Mediasite Professional Services
Customers maximize their return on video with additional Mediasite Services including integration services, installation assistance, custom development, training and monitoring services~~.~~

While COVID impacted our ability to do onsite services, so far we have been able to provide the majority of our professional services remotely.

Mediasite Customer Care
Mediasite Customer Care plans include software upgrades for MVP and Mediasite Capture Solutions, technical support, warranty extensions and advanced replacement on hardware, as well as access to the Mediasite Community and other online resources. Nearly all of our customers purchase a Customer Care plan when they purchase Mediasite Video Platform or Mediasite Capture Solutions. Annual service contracts for Mediasite Video Cloud include a Standard Customer Care plan.

COVID has not had an immediate impact on our Customer Care plans. It is, however, difficult to predict the long term impact should the pandemic continue.

Segment Information

We have determined that in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280-10, *Segment Reporting*, we operate in three operating segments, however these segments meet the criteria for aggregation for reporting purposes as one reporting segment as of September 30, 2020.

Billings

Our services are typically billed and collected in advance of providing the service. Billings, which are a non-GAAP measure, are an important indicator of customer activity and cash flow in addition to revenue, and is therefore used by management as a key operational indicator. Billings are computed by combining revenue with the change in unearned revenue.

Our largest individual customers can be either value added resellers ("VARs") or end users in the form of large higher education institutions. No single customer represented over 10% of billings or revenue in 2020 or 2019.

Sales

We sell and market our offerings through a sales force that manages a channel of value-added resellers, system integrators, and consultants. These third-party representatives specialize in understanding both audio/video systems and IT networking. We also sold to approximately 300 resellers, and over 1,150 total end users.

Market expansion: Over two-thirds of our revenue is realized from the education market. Recent trends due to COVID are driving rapid adoption of video as a remote work and learning solution. This development represents an exciting trend beyond the traditional academic customer base for the company.

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

For our Mediasite Events business both in the US and Japan, we continue to see growing demand for virtual events as a result of COVID. These event-based communication, education and training platforms are expected to help drive the Company's corporate sales activities going forward.

Operations

We contract with a third party to build the hardware for our Mediasite Recorders and purchase quantities sufficient to fill specific customer orders, including purchases of inventory by resellers. Quantities are maintained in inventory by the third-party provider and shipped directly to the end customer or reseller. The hardware manufacturer provides a limited one-year warranty on the hardware, which we pass on to our customers who purchase a Mediasite Customer Care support and maintenance plan. We believe there are alternative sources of manufacturing for our recorders and believe there are additional sources and alternatives to the existing production process. In recent months, we have experienced slight delays in shipments of component parts used in our products due to the COVID crisis. In order to mitigate production delays in the future, the Company increased inventory quantities during the fourth quarter of fiscal 2020.

Research and Development

We believe that our future success will depend in part on our ability to continue to develop new business, and to enhance our existing business. Accordingly, we invest a significant amount of our resources in research and development activities, with a particular focus on our SaaS offerings. During the fiscal years ended September 30, 2020 and 2019, we spent $6.3 million and $7.4 million, respectively, on internal research and development activities in our business. These amounts represent 18% in 2020 and 21% in 2019 of total revenue.

Global Expansion

We acquired Sonic Foundry International in the Netherlands and Mediasite KK in Japan in fiscal 2014. With these acquisitions, we significantly expanded our global market reach in the Asia-Pacific Region and Europe, and accelerated our commitment to enterprise video communication world-wide.

Employees

At September 30, 2020 and 2019, we had 177 and 183 full-time employees, respectively. Our employees are not represented by a labor union, nor are they subject to a collective bargaining agreement. We have never experienced a work stoppage and believe that our employee relations are satisfactory.

ITEM 1A. RISK FACTORS

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

On August 26, 2020, the Securities and Exchange Commission ("Commission") announced the adoption of amendments to modernize certain disclosures registrants are required to make pursuant to Regulation S-K. The amendments are intended to reflect the Commission's commitment to a principles-based, registrant-specific approach to disclosure, rooted in materiality. The modernization of Item 105 Risk Factor Disclosures includes the following:

- The requirement for inclusion of a summary risk factor disclosure of no more than two pages if the risk factor section exceeds 15 pages.
- Refining the principles-based approach by requiring disclosure of "material" risk factors versus "most significant."
- The requirement to organize risk factors under relevant headings for ease of understanding, with generic risk factors placed at the end of the section. The amendments do not specify the risk factor headings.

The Company has reviewed its current risk factors and will organize them under the primary categories of company risk, industry risk, and investor risk.

Risk Factor Summary Disclosure

A. **Company Risks** consist of both internal and external items and events that impact Sonic Foundry as a company. These are further categorized as follows:

   1. **Financial Risks** impact the financial well-being of the Company. Those risks include, but are not limited to the following:
      a. We have a history of losses.
      b. We may need to raise additional capital.
      c. If customer adoption has barriers, our business may not succeed.
      d. Large, multi-unit deals are needed for continued success.
      e. Because most of our service contracts are renewable on an annual basis, a reduction in our service renewal rate could significantly reduce our revenues.
      f. If we are viewed only as a commodity supplier, our margins and valuations will shrink.
      g. Our operating results are hard to predict as a significant amount of our sales typically occur at the end of a quarter, and the mix of product and service orders may vary significantly.
      h. Accounting regulations and related interpretations and policies, particularly those related to revenue recognition, cause us to defer revenue recognition into future periods for all or portions of our products and services.
      i. Because we generally recognize revenues ratably over the term of our service contracts, a decrease or increase in service transactions will not be fully reflected in our operating results until future periods.
      j. Currency exchange rate fluctuations could result in higher costs and decreased margins and earnings.
      k. Our ability to utilize our net operating loss carryforwards may be limited.

   2. **Operational Risks** disrupt fundamental daily operations of the Company. Those risks include, but are not limited to the following:
      a. Operational failures in our network infrastructure could disrupt our remote hosting services, cause us to lose clients and sales to potential clients and result in increased expenses and reduced revenues.
      b. Our business is susceptible to risks associated with international operations.

c. Supporting our existing and growing customer base and implementing large customer deployments could strain our personnel resources and infrastructure, and if we are unable to scale our operations and increase productivity, customer satisfaction and our business will be harmed.
d. If we lose key personnel or fail to integrate replacement personnel successfully, our ability to manage our business could be impaired.
e. Manufacturing disruption or capacity constraints would harm our business.

3. **Strategic Risks** prevent the Company from achieving its strategic objectives. Those risks include, but are not limited to the following:
    a. The technology underlying our products and services is complex and may contain unknown defects that could harm our reputation, result in product liability or decrease market acceptance of our products.
    b. Our success depends upon the proprietary aspects of our technology.
    c. We may not be able to innovate to meet the needs of our target market.
    d. If potential customers or competitors use open source software to develop products that are competitive with our products and services, we may face decreased demand and pressure to reduce the prices for our products.
    e. We also rely upon trademark, copyright and trade secret laws, which may not be sufficient to protect our intellectual property.
    f. If other parties bring infringement or other claims against us, we may incur significant costs or lose customers.
    g. There is a great deal of competition in the market for our products, which could lower the demand for our products and have a negative impact on our operations.
    h. If our marketing and lead generation efforts are not successful, our business will be harmed.
    i. The length of our sales and deployment cycles are uncertain, which may cause our revenue and operating results to vary significantly from quarter to quarter and year to year.
    j. We depend in part on the success of our relationships with third-party resellers and integrators.
    k. We may need to make acquisitions or form strategic alliances or partnerships in order to remain competitive in our market, and acquisitions, strategic alliances or partnerships, could be difficult to integrate, disrupt our business and dilute stockholder value.

4. **Compliance Risks** result from non-compliance of laws and regulations from various governing bodies. Those risks include, but are not limited to the following:
    a. Our customers may use our products to share confidential and sensitive information, and if our system security is breached, our reputation could be harmed and we may lose customers.
    b. Our business is subject to changing regulations regarding corporate governance and public disclosure that will increase both our costs and the risk of noncompliance.

5. **Industry Risks** are items and events that have macro-level impacts on our industries. Those risks include, but are not limited to the following:
    a. Economic conditions could materially adversely affect the Company.
    b. Economic conditions may have a disproportionate effect on the sale of our products.
    c. We could lose revenues if there are changes in the spending policies or budget priorities for government funding of colleges, universities, schools and other education providers.
    d. Changes in U.S. trade policy, including the imposition of tariffs and the resulting consequences, may have a material adverse impact on our business, operating results and financial condition.
    e. Privacy concerns and laws, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our solutions and adversely affect our business.
    f. We face risks associated with government regulation of the internet and related legal uncertainties.

6. **Investor Risks** are both internal and external risks that impact an investment made in the Company’s stock. Those risks include, but are not limited to the following:
    a. The market price of our common stock may be subject to volatility.
    b. Our common stock is subject to low trading volume and broad price swings.
    c. Exercise of outstanding options and warrants will result in further dilution.
    d. Provisions of our charter documents and Maryland law could also discourage an acquisition of our Company that would benefit our stockholders and, due to our insiders control of a substantial percentage of our stock,

our officers, directors, and major stockholders will have a substantial amount of control over whether to approve or disapprove of a transaction.

Following is a more detailed discussion of each risk factor outlined in the summary.

Company Risks – Financial

We have a history of losses.
Our operations have generated losses in most years. Although we were able to maintain flat revenues in fiscal year 2020 and reduce expenses, we still generated a loss for the year. While we continue to work towards profitability and growth, we may not realize sufficient revenues or be able to sustain cost reductions to reach that goal. We initiated a plan for reducing costs in fiscal 2019 that began with eliminating certain headcount and functions, including a reduction in senior executive positions. In 2020, we continued that focus on cost reduction and also executed on an executive leadership change in the fourth quarter of 2020. In that same quarter, we eliminated three additional mid to senior level sales and marketing positions, and in the first quarter of 2021, eliminated additional headcount, primarily within sales and marketing. To achieve profitability and growth, we may need to change certain aspects of our business model. As such, we face risks, expenses and uncertainties related to our specific business model, as well as those typically encountered by similar companies. Those risks include, but are not limited to our ability to successfully achieve the following:

- Manage the growth and profitability of our business, including known and unknown challenges and expenses;
- Acquire new customers and retain and expand existing customers;
- Develop new and complimentary price competitive product and service offerings, both internally and in partnership with third parties;
- Maintain and develop relationships with strategic partners including dealers, A/V integrators, large institutional end-users, and other channel partners;
- Compete successfully with companies offering similar products and services;
- Develop targeted marketing efforts to expand our reach into new markets and deepen penetration into existing markets;
- Manage and scale a high-performance technology infrastructure;
- Ensure a highly secure and reliable product platform;
- Attract and retain highly skilled personnel to execute in a fast-paced, rapidly changing environment;
- Navigate the ongoing evolution of changing regulatory requirements, such as privacy laws and tax laws, and how it impacts our business, including our products and services; and
- Expand our competitive reach into international markets.

We have experienced some of these risks already and will continue to encounter them as the business evolves. Failure to successfully manage them could adversely affect our financial condition and results of operations.

We may need to raise additional capital.
At September 30, 2020, we had cash of $7.6 million, $2.3 million of which was in our foreign operations compared to total cash of $4.3 million and foreign operations cash of $1.3 million at September 30, 2019. We no longer have a revolving credit facility for any financing needs beyond our available cash and cash generated from operations, and, there can be no assurances a revolving facility will be available. The Company has a history of losses and has historically financed its operations primarily through cash from sales of equity or debt securities, and to a limited extent, cash from operations and through credit facilities. The Company was able to maintain prior year revenue levels despite the impacts of COVID-19 and reduce operating expenses as planned to reach positive adjusted EBITDA. We cannot ensure that revenue will continue to grow given the reduction in operating expenses. If revenue is determined to be growing at a rate less than anticipated and expenses are not sufficiently reduced, our cash resources may not be sufficient to support working capital needs, and we may have to attempt to borrow additional funds from other debt providers or attempt to raise equity capital. In addition, our financial condition may, in the future, cause us to be in non-compliance with certain provisions of any debt facilities we may establish.

In the event we need to borrow additional money or raise additional equity capital, we may not be able to do so on acceptable terms and conditions. In that event, we may seek to raise money from entities that are affiliated with the Company, as we have done in the past. However, investors may require that their investment be in the form of convertible preferred stock or convertible debt, which will dilute the interests of our existing stockholders. The Company may need to rely on its Chairman, Mark Burish, ("Mr. Burish") to provide capital on terms reasonable and acceptable to the independent members of the Board of Directors. There is no assurance, however, that Mr. Burish, or any other affiliated party, will be willing to provide additional capital..

During fiscal year 2020, the Company entered into a debt conversion agreement with Mr. Burish to convert all outstanding debt owed to Mr. Burish into common stock at a conversion price of $5.00 per share. The total debt amount, including accrued interest and fees of $5.6 million, was converted into 1,114,723 shares of common stock. No cash was exchanged in the transaction, however, the elimination of debt improves our working capital as payments of $100 thousand plus interest beginning in August 2020 have now been eliminated.

As a result of the non-cash goodwill and other intangible assets impairment charges recorded in fiscal 2018, the Company was no longer able to satisfy the NASDAQ requirement to maintain $2.5 million of stockholders' equity. On December 18, 2018, the Board of Directors approved the voluntary transfer of its common stock from the NASDAQ Stock Exchange to the OTCQB Market ("the "QTCQB"). The OTCQB Market is operated by OTC Markets Group, a centralized electronic quotation service for over-the-counter-securities. The Company ceased trading on NASDAQ at the close of business on December 28, 2018 and began trading on the OTCQB on December 31, 2018 under its current trading symbol "SOFO". The Company ceased trading on the OTCQB at the close of business on February 15, 2019 and began trading on the OTC Pink Sheets on February 18, 2019 under its current trading symbol "SOFO". The Company has remained a reporting company under the Securities Exchange Act of 1934, as amended, notwithstanding its voluntary withdrawal from the NASDAQ. As a result of the Company's inability to satisfy the NASDAQ requirements, its ability to raise equity capital may be adversely affected.

In the event we are able to borrow money, we may incur significant interest charges, which could harm our profitability. Holders of debt would also have rights, preferences or privileges senior to those of existing holders of our common stock. In the event we are able to raise additional equity, the terms of such financing may dilute the ownership interests of current investors and cause our stock price to fall significantly. In the event additional capital is provided by executive officers or directors, then, due to the low price levels of our common stock, control by such executive officers or directors may substantially increase.

We may not be able to secure debt or equity financing upon acceptable terms, if at all. If we cannot raise funds on acceptable terms, our business, operating results, and financial condition could be negatively impacted. The Company believes its cash position is adequate to accomplish its business plan through at least the next twelve months.

If the funds held by our foreign subsidiaries are needed for our operations in the United States, the repatriation of some of these funds to the United States could require payment of additional U.S. taxes.

If customer adoption has barriers, our business may not succeed.
Part of our strategic challenge is to convince enterprise customers of the stability, productivity, improved communications, cost savings, suitability and other benefits of our products. The market for content delivery solutions is very complex, includes many products and solutions that address various aspects of customer needs and as a result it is often difficult for customers and channel partners to understand how our products and services compare. Further, corporate customers may use video as a tool, but may choose to rely upon their own IT infrastructure and resources to manage their video content. Because many companies generally are predisposed to maintaining control of their IT systems and infrastructure, there may be resistance to using software as a service provided by a third party. Our future revenue and revenue growth rates will depend in large part on our success in delivering these products effectively, creating market acceptance for these products in existing markets that we sell into and in new markets, and meeting customer’s needs for new or enhanced products. If we fail to do so, our products will not achieve widespread market acceptance, or will no longer be used by our customers, and we may not generate sufficient revenue to offset our product development and selling and marketing costs, which will adversely impact the valuation of the Company, the price of our stock, and will harm our business.

Large, multi-unit deals are needed for continued success.
We need to sell multiple units to educational, corporate and government institutions in order to sell most efficiently and become profitable. Sales of multiple units to corporate customers have lagged behind results achieved in the higher education market; consequently, we have allocated more resources to the higher education market. While we have addressed a strategy to leverage existing customers, better address the needs of potential new customers, and close multiple unit transactions, a customer may choose not to make expected purchases of our products. Despite our strategy to focus on a customer base with a recurring need to purchase our products and services, we need to identify and sell more products and services to new customers, enter new markets and reduce the rate of attrition from certain existing customers, typically those with smaller deployments. The failure to develop effective strategies to enter new markets, and increase sales will adversely impact the valuation of the Company and the price of our stock, and will harm our business.

Because most of our service contracts are renewable on an annual basis, a reduction in our service renewal rate could significantly reduce our revenues.
Our clients have no obligation to renew their content hosting agreements, customer support contracts or other annual service contracts after the expiration of the initial period, which is typically one year, and some clients have elected not to do so. A decline

in renewal rates could cause our revenues to decline. Our renewal rates may decline or fluctuate as a result of a number of factors, including client dissatisfaction with our products and services, our slow response to customer technical inquiries, our failure to update our products to maintain their attractiveness in the market, deteriorating economic conditions or budgetary constraints or changes in budget priorities faced by our clients. If our retention rates decrease, we may need to provide more incentives, reduce pricing or increase marketing costs to improve lead generation through marketing in order to increase revenues, all of which could reduce profitability.

If we are viewed only as a commodity supplier, our margins and valuations will shrink.
We need to provide value-added services in order to avoid being viewed as a commodity supplier, which could adversely impact the valuation of the Company, and the price of our stock. This entails building long-term customer relationships and developing features that will distinguish our products. Our technology is complex and is often confused with other products and technologies in the market place, including video conferencing, streaming and collaboration.

We have developed lower cost hardware, software products and cloud solutions to better address the more cost-conscious customers. Such products have more limited features compared to our existing products. While we believe we can preserve the market for our full-featured products due to differentiation between the two and migration to full featured products, release of lower cost products has and could continue to reduce gross margins and demand for products sold at higher prices, which could adversely affect our business and operating results. Potential large-scale deployments of our products often include the lower cost products we sell, putting greater pressure on gross margin due to expectations for greater volume discounts.

If we fail to build long-term customer relationships, develop features that distinguish our products in the market place and address the market for lower function and cost solutions, our margins will shrink, and our stock may be adversely impacted.

Our operating results are hard to predict as a significant amount of our sales typically occur at the end of a quarter and the mix of product and service orders may vary significantly.
Revenue for any particular quarter is extremely difficult to predict with any degree of certainty. We typically ship products within a short time after we receive an order and therefore, we do not have an order backlog with which to estimate future revenue. Any decline or uncertainty in end-user demand could negatively impact end-user orders. Accordingly, our expectations for both short and long-term future revenue is based almost exclusively on our own estimate of future demand based on history and the pipeline of sales opportunities we manage, rather than on firm orders. The mix of product demand varies significantly from quarter to quarter, further complicating our estimated product needs. Our expense and inventory levels are based largely on these estimates. In addition, our events business is particularly unpredictable and subject to variation due to the short time-frame between when we learn of an opportunity and when the event occurs. Further, the majority of our product orders are received in the last month of a quarter; thus, the unpredictability of the receipt of these orders could negatively impact our future results. Accordingly, any significant shortfall in demand for our products or services in relation to our expectations, even if the result was a short-term delay in orders, would have an adverse impact on our operating results.

We have experienced growing demand for our hosting and event services as well as a growing preference from our customers in purchasing our annually licensed software. As a result, we have seen an increase in service billings and recurring revenue as a percentage of total billings, and a decrease in hardware billings. We expect this trend to continue, which we expect to help improve predictability of revenue and gross margins but will delay the impact on revenue of any increase or decrease in billings during any particular quarter. We subcontract for some services required by our events customers, such as onsite management labor and closed captioning. We typically charge for such services at a lower margin than other services. The percentage of billings represented by services, provided either directly or indirectly, is also likely to fluctuate from quarter to quarter due to seasonality of event services and other factors. Since content hosting and support services are typically billed in advance of providing the service, revenue is initially deferred, leading to reduced current period revenue with a corresponding negative impact to profits or losses in periods of significant increase in the percentage of our billings for deferred services.

Accounting regulations and related interpretations and policies, particularly those related to revenue recognition, cause us to defer revenue recognition into future periods for all or portions of our products and services.
Revenue recognition for our products and services is complex and subject to multiple sources of authoritative guidance, some of which are new, as well as, varied interpretations and implementation practices for such rules. These rules require us to apply judgment in determining revenue recognition. In certain situations, we may have to defer the entire amount of revenue from a transaction, even when the product has already shipped. This may occur when the customer has delayed payment on the transaction, or in certain other circumstances, such as when we agree to extend payment terms on other invoices from such customer. In addition, we always defer revenue when services are included in a transaction, and not performed. Other factors that are considered in revenue recognition include those such as standalone selling price (SSP), best estimate of selling price and the inclusion of other services and contingencies to payment terms. We expect that we will continue to defer portions or, in certain circumstances with respect to a particular customer, all of our product or service billings because of these factors, and to the extent

that management's judgment is incorrect it could result in an increase in the amount of revenue deferred in any one period. The amounts deferred may be significant and may vary from quarter to quarter depending on, among other factors, compliance with payment terms, the mix of products sold, combination of products and services sold together or contractual terms.

Additional changes in authoritative guidance, including the interpretation of "Revenue from Contracts with Customers (Topic 606)", or changes in practice in applying such rules could also cause us to defer the recognition of revenue to future periods or recognize lower revenue. See Note 1 - Accounting Policies of the Notes to Financial Statements (Part II, Item 8 of this Form 10-K) for further discussion.

Because we generally recognize revenues ratably over the term of our service contracts, decrease or increase in service transactions will not be fully reflected in our operating results until future periods.
We recognize most of our revenues from service contracts monthly over the terms of their agreements, which are typically 12 months, although terms have ranged from less than one month to 48 months. As a result, much of the service revenue we report in each quarter is attributable to agreements entered into during previous quarters. Consequently, a decline in sales, client renewals or market acceptance of our products in any one quarter will not necessarily be fully reflected in the revenues in that quarter and will negatively affect our revenues and profitability in future quarters. This ratable revenue recognition also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new clients must be recognized over the applicable agreement term.

Currency exchange rate fluctuations could result in higher costs and decreased margins and earnings.
The functional currency of our foreign subsidiaries in the Netherlands is the Euro and in Japan is the Japanese Yen. They are subject to foreign currency exchange rate risk. The conversion rate of the Yen to the US Dollar varied from about 105 to approximately 109 during fiscal 2020. Similarly, the Euro varied from about 0.85 to approximately 0.92 to the US Dollar during fiscal 2020. The strength of the dollar impacts our ability to export profitably to other countries, and will likely continue to fluctuate. Any increase in the exchange rate of the US Dollar compared to the Euro or the Japanese Yen will impact our future operating results and financial position.

Our ability to utilize our net operating loss carryforwards may be limited.
The use of our net operating loss carryforwards may have limitations resulting from certain future ownership changes or other factors under the Internal Revenue Code and other taxing authorities. The Tax Cuts and Jobs Act of 2017 changed both the federal deferred tax value of the net operating loss carryforwards and the rules of utilization of federal net operating loss carryforwards. The Tax Cuts and Jobs Act of 2017 lowered the corporate tax rate from 35% to 21% effective for our 2018 fiscal year. For net operating loss carryforwards generated in years prior to 2018, there is no annual limitation on the utilization and the carryforward period remains at 20 years. There could be a limitation if a change in ownership occurs. However, net operating loss carryforwards generated in years after 2017 will only be available to offset 80% of future taxable income in any single year, but will not expire.

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

Company Risks – Operational

Operational failures in our network infrastructure could disrupt our remote hosting services, cause us to lose clients and sales to potential clients and result in increased expenses and reduced revenues.
Unanticipated problems affecting our network systems could cause interruptions or delays in the delivery of the hosting services we provide to some of our clients. We are not equipped to provide full disaster recovery to all of our hosted clients. If there are operational failures in our network infrastructure that cause interruptions, slower response times, loss of data or extended loss of service for our remotely hosted clients, we may be required to issue credits or pay penalties, current clients may terminate their contracts or elect not to renew them and we may lose sales to potential clients. We have recently acquired additional hardware and systems, expect to make more significant investments in hardware and outsourced most aspects of our network infrastructure to multiple providers. We also rely on Internet systems and infrastructure to operate our business and provide our services. As a result, we are reliant on third parties for network availability, so outages may be outside our control and we may need to acquire additional hardware in order to provide an appropriate level of redundancy required by our customers. These hardware, data, and cloud computing platforms may not be available at reasonable terms or prices.

Our business is susceptible to risks associated with international operations.
International product and service billings were 36% of our total billings in each of the past two years and are expected to continue to account for a significant portion of our business in the future. International sales are subject to a variety of risks, including:

- Difficulties in establishing and managing international subsidiaries, distribution channels and operations;
- Difficulties in selling, servicing and supporting overseas products, translating products into foreign languages and compliance with local hardware requirements;
- Difficulties in managing the demands of large international deployments, many of which distract key sales personnel from opportunities in other parts of the world;
- Challenges associated with management transition;
- Challenges related to language or cultural differences;
- The uncertainty of laws and enforcement in certain countries, such as China, relating to the protection of intellectual property or requirements for product certification, protection of personal data or other restrictions;
- Competitive pressure impacting other parts of the world;
- Multiple and possibly overlapping tax structures;
- Currency and exchange rate fluctuations and imposition of tariffs or quotas;
- Difficulties in collecting accounts receivable in foreign countries, including complexities in documenting letters of credit;
- Economic or political changes in international markets;
- Restrictions on access to the Internet; and
- Difficulty in complying with international employment related requirements

Supporting our existing and growing customer base and implementing large customer deployments could strain our personnel resources and infrastructure, and if we are unable to scale our operations and increase productivity, customer satisfaction and our business will be harmed.
Frequent enhancements to our software puts pressure on our customers to install, maintain and train their personnel on its use. Further, frequent releases of the software can lead to less product stability. As a result, our customer care and engineering resources have come under, and are expected in the future to come under significant pressure in providing the high-quality of technical support our customers expect during periods of high demand. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. Increased customer demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on our applications and business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our products and services to existing and prospective customers, and our business, operating results and financial position.

As we target more of our sales efforts at larger initial transactions, we face increasingly complex deployments requiring substantial technical and management resources, including in some cases significant product customization and integration with other applications or hardware. Customers making large expenditures for our products and services typically have higher expectations of product and service operability and response time if issues arise. Some of these customers have asked us to host their content and have significant amounts of legacy content to transfer to our datacenter. Such increased activity and storage demand on our data centers put additional strain on our personnel and hosting infrastructure. Our hosting customers typically require a high level of access, data security and need to capture and store multiple high definition streams. Such requirements require costly enhancements to our infrastructure. If we do not accurately plan for our infrastructure capacity requirements and we experience significant strains on our data center capacity, our customers could experience performance degradation or service outages that may subject us to financial penalties, result in customer losses and harm our business. As we add or change data centers or capacity, we may move or transfer our data and our customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our services, which may damage our business. High demand on technical and management resources to manage large transactions distract personnel from existing customers, development of new products and other important activities which could lead to potential customer dissatisfaction, product development delays or other issues associated with the distraction.

If a customer is not satisfied with the quality of work performed by us or a third party or with the type of services or solutions delivered, then we could incur additional costs to address the situation and delay recognition of revenue, the profitability of that work might be impaired, and the customer's dissatisfaction with our services could damage our ability to obtain additional work from that customer. In addition, negative publicity related to our customer relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

If we lose key personnel or fail to integrate replacement personnel successfully, our ability to manage our business could be impaired.
Our future success depends upon the continued service of our key management, technical, sales and other critical personnel, including our Chief Executive Officer. Most of our officers and other key personnel are employees-at-will, and we cannot assure

that we will be able to retain them. Key personnel have left our Company in the past, sometimes to accept employment with companies that sell similar products or services to existing or potential customers of ours. The technology industry is subject to substantial and continuous competition for engineers with high levels of experience in designing, developing and managing software and Internet-related services, as well as competition for sales and operations personnel. There will likely be additional departures of key personnel from time to time in the future and such departures could result in additional competition, loss of customers or confusion in the marketplace. As we seek to replace such departures, or expand our business, the hiring of qualified sales, technical and support personnel is difficult due to the limited number of qualified professionals. Training of new sales, technical and support personnel can take six months or longer before they become productive. Sales and technical strategies have changed and will likely change further in the future and require different skills to sell to different customer types and develop new and changing products. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of Company initiatives and the results of our operations. In addition, we do not have life insurance policies on any of our key employees. If we lose the services of any of our key employees, the integration of replacement personnel could be time consuming, may cause disruptions to our operations and may be unsuccessful.

Manufacturing disruption or capacity constraints would harm our business.
We subcontract the manufacturing of our recorders to a third-party contract manufacturer. Although we believe there are multiple sources of supply from other contract manufacturers, as well as, multiple suppliers of component parts required by our contract manufacturer, a disruption of supply of component parts or completed products, even if short term, would have a material negative impact on our revenues. Likewise, we are susceptible to any material change in terms; such as pricing, level of services performed or changes to payment terms by our contract manufacturer. In particular, the cost of our products increased this year as a result of tariffs imposed by China. Many component parts currently have long delivery lead times or cease production of certain components with limited notice in which to evaluate or obtain alternate supply, requiring conservative estimation of production requirements. Lengthening lead times, product design changes and other third-party manufacturing disruptions have caused delays in delivery in the past. In order to compensate for supply delays, we have sourced components from off-shore locations, used cross component parts, paid significantly higher prices or premium fees to expedite delivery for short supply components and converted inventory from one version to another. We have typically maintained greater amounts of inventory as insurance against delays but currently hold substantially lower quantities of inventory in order to improve liquidity. Many of these strategies have increased our costs or require substantial resources to maintain and may not be sufficient to ensure against a product shortage. We depend on our subcontract manufacturer to produce our products efficiently while maintaining high levels of quality despite frequent changes in configuration and scheduling imposed by us. Any manufacturing or component defects, delay in production or changes in product features will likely cause customer dissatisfaction and may harm our reputation. Moreover, any incapacitation of the manufacturing site due to destruction, natural disaster or similar events could result in a loss of product inventory. As a result of any of the foregoing, we may not be able to meet demand for our products, which could negatively affect revenues in the quarter of the disruption or longer depending upon the magnitude of the event, and could harm our reputation.

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

Company Risks – Strategic

The technology underlying our products and services is complex and may contain unknown defects that could harm our reputation, result in product liability or decrease market acceptance of our products.
The technology underlying our products is complex and includes software that is internally developed, software licensed from third parties and hardware purchased from third parties. These products have, and will in the future, contain errors or defects, particularly when first introduced or when new versions or enhancements are released. We may not discover defects that affect our current or new applications or enhancements until after they are sold, and our insurance coverage may not be sufficient to cover our exposure. Further, there are third-party applications our products and services are dependent on, or integrate with, such as operating systems and learning management systems. These integrations require specialized knowledge that is difficult and expensive to maintain. Failure to maintain compatibility with such applications or identification of defects in our products and services could:

- Damage our reputation;
- Cause our customers to initiate product liability suits against us;
- Increase our product development resources;
- Cause customers to cancel orders, ask for partial refunds or potential customers to purchase competitive products or services;
- Delay release or market acceptance of our products, or otherwise adversely impact our relationships with our customers; and/or
- Cause us to allocate valuable engineering resources to fix our existing products, which may cause us to allocate fewer resources toward developing new products, or toward adding features to our existing products.

Our success depends upon the proprietary aspects of our technology.
Our success and ability to compete depend to a significant degree upon the protection of our proprietary technology. We currently have three U.S. patents that have been issued to us. We may seek additional patents in the future. However, it is possible that:

- Any patents acquired by or issued to us may not be broad enough to protect us.
- Any issued patent could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the inventions claimed in those patents.
- Current and future competitors may independently develop similar technology, duplicate our services or design around any of our patents.
- Effective patent protection, including effective legal-enforcement mechanisms against those who violate our patent-related assets, may not be available in every country in which we do or plan to do business.
- We may not have the resources to enforce our patents or may determine the potential benefits are not worth the cost and risk of ultimately being unsuccessful.

We may not be able to innovate to meet the needs of our target markets.
Our future success will continue to depend upon our ability to create an effective development product strategy, to develop new products, product enhancements and service offerings that address future needs of our existing target markets and enable us to expand the market for our products and service offerings. Our success is also dependent upon our ability to respond to changing standards and practices on a timely basis, particularly as customers move away from hardware to software solutions. The success of new strategies, products, product enhancements and service offerings depends on several factors, including timely completion, quality and stability, and market acceptance. Our fiscal 2021 business plan includes an expectation for revenue contribution from both new and existing customers associated with the introduction of lower priced hardware and software products in locations that can't support our more comprehensive solutions. There can be no assurance that we will be successful in achieving our revenue expectations from these new products or that we are able to retain existing customers with our more comprehensive solutions. Our revenue could be adversely impacted if we do not capitalize on opportunities to develop innovative new products, product enhancements and service offerings that will increase the likelihood that our products and services will be accepted in preference to the products and services of our current and future competitors. Some of our prospective customers may delay the purchase of our products or services until certain features are completed, may require custom development of certain features as part of the purchase decision, or may condition additional payments tied to completion of such features. Prioritizing such custom features can be difficult to adapt to other customers and distracts our engineering team from implementing features required by other customers.

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

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

We also rely upon trademark, copyright and trade secret laws, which may not be sufficient to protect our intellectual property.
We also rely on a combination of laws, such as copyright, trademark and trade secret laws and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our technology. We have registered three U.S. and four foreign country trademarks. These forms of intellectual property protection are critically important to our ability to establish and maintain our competitive position. However, it is possible that:

- Third parties may infringe or misappropriate our copyrights, trademarks and similar proprietary rights.
- Laws and contractual restrictions may not be sufficient to prevent misappropriation of our technology or to deter others from developing similar technologies, particularly in foreign countries where the laws may not protect our proprietary rights as fully or as readily as Unites States laws.
- There have been attacks on certain patent systems, increasing the likelihood of changes to established laws, including in the United States. We cannot predict the long-term effects of any potential changes, which could be detrimental to our licensing program.
- Effective trademark, copyright and trade secret protection, including effective legal-enforcement mechanisms against those who violate our trademark, copyright or trade secret assets, may be cost prohibitive or unavailable or limited in foreign countries.
- Contractual agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information.
- Other companies may claim common law trademark rights based upon state or foreign laws that precede the federal registration of our marks.
- Policing unauthorized use of our services and trademarks is difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use.
- Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us for it, which would significantly harm our business.

If other parties bring infringement or other claims against us, we may incur significant costs or lose customers.
Other companies may obtain patents or other proprietary rights that would limit our ability to conduct our business and could assert that our technologies infringe their proprietary rights. We have incurred substantial costs to defend against such claims in the past and could incur legal costs in the future, even if without merit, and intellectual property litigation could force us to cease using key technology, obtain a license or redesign our products. In the course of our business, we may sell certain systems to our customers, and in connection with such sale, we may agree to indemnify these customers from claims made against them by third parties for patent infringement related to these systems, which could harm our business.

There is a great deal of competition in the market for our products, which could lower the demand for our products and have a negative impact on our operations.
The market for our products and services is intensely competitive, dynamic and subject to rapid technological change. The intensity of the competition and the pace of change are expected to increase in the future, and likely will require the Company to compete on price and our offerings more than in the past, which could adversely affect our business and operating results. Increased competition has reduced gross margins, has resulted in new customer losses and may result in loss of market share, any one of which could seriously harm our business. Competitors vary in size and in the scope and breadth of the products and services offered, many of which have greater financial resources, greater name recognition, more employees and greater financial, technical, marketing, public relations and distribution resources than we have. In addition, new competitors with greater financial resources may arise through partnerships, distribution agreements, mergers, acquisitions or other types of transactions at any time. In particular, large companies have begun to make investments in and/or partner with smaller companies to enter the lecture capture and video management markets.

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

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

- Appliance- or room-based lecture capture provides a fully integrated system with complete recording automation for live or on-demand content. The automated, pre-scheduled workflow results in the greatest faculty and staff adoption and largest volumes of recorded content in the shortest amount of time.
- Software-based lecture capture that resides on a podium or computer in the classroom also captures and publishes rich media content, but relies on campus- or user-supplied hardware.
- Desktop capture tools reside on individual users' laptops or computers allowing them to record user-generated content.

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

Enterprise video management solutions serve as centralized media repositories that facilitate the delivery, publishing and management of on-demand video. Unlike Mediasite, most platforms do not include a video capture, webcasting or live streaming component, but instead ingest or import video-based content captured by other third-party devices or solutions. Also, most other platforms focus on ingesting video-only content rather than rich video which combines multiple synchronous video and/or slide streams into an interactive media experience.

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

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

If our marketing and lead generation efforts are not successful, our business will be harmed.
We believe that continued marketing efforts will be critical to achieve widespread acceptance of our products. Our marketing strategies and campaigns may not be successful, and we may not be able to generate sufficient cash flow from operations to cover the expenses required to implement effective strategies and campaigns. For example, failure to adequately generate and develop qualified sales leads could cause our future revenue to decrease. In addition, our inability to generate and cultivate qualified sales leads into large organizations, where there is the potential for significant use of our products, could have a material adverse effect on our business. We may not be able to identify and secure the number of strategic qualified sales leads necessary to help generate marketplace acceptance of our products. If our marketing or lead-generation efforts are not successful, our business and operating results will be harmed.

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

Our largest potential sources of revenue are educational institutions, large corporations and government entities that often require long testing and approval processes before making a decision to purchase our products, particularly when evaluating our products for inclusion in new buildings under construction, high dollar transactions or competitive bids. In general, the process of selling our products to a potential customer may involve lengthy negotiations, collaborations with consultants, designers and architects, time consuming installation processes and changes in network infrastructure in excess of what we or our VARs are able to provide. In addition, educational institutions that started with small pilots are committing to more complex installations and expanding to include undergraduate classrooms, which, due to the increased size of these types of transactions, typically require a longer sales cycle. Also, our enterprise accounts are less motivated by seasonal sales and promotions, and therefore are frequently difficult to finalize. As a result of these factors, our sales and deployment cycles are unpredictable. Our sales and deployment cycles are also subject to delays as a result of customer-specific factors over which we have little or no control, including budgetary constraints, existing infrastructure technical issues and internal approval procedures, particularly with customers or potential customers that rely on government funding.

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

Sales of some of our products have experienced seasonal fluctuations which have affected sequential growth rates for these products, particularly in our first fiscal quarter. For example, there is generally a slowdown for sales of our products in the higher education and corporate markets in the first fiscal quarter of each year. Seasonal fluctuations could negatively affect our business, which could cause our operating results to fall short of anticipated results for such quarters. As such, we believe that quarter-to-quarter comparisons of our revenues, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

We depend in part on the success of our relationships with third-party resellers and integrators.
Our success depends on various third-party relationships, particularly in our non-higher education business, with certain international geographies and our events services operations. The relationships include third party resellers, as well as, system integrators that assist with implementations of our products and sourcing of our products and services. Identifying partners, negotiating and documenting relationships with them and maintaining their relationships require significant time and resources from us. In addition, our agreements with our resellers and integrators are typically non-exclusive and do not prohibit them from working with our competitors or from offering competing products or services. We have limited control, if any, as to whether these strategic partners devote adequate resources to promoting, selling and implementing our products as compared to our competitor's products. Our competitors may be effective in providing incentives to third parties to favor their products or services. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to maintain or grow our revenue could be impaired and our operating results would suffer.

We may need to make acquisitions or form strategic alliances or partnerships in order to remain competitive in our market, and recent acquisitions, strategic alliances or partnerships, including the acquisition of Mediasite KK and Sonic Foundry International, could be difficult to integrate, disrupt our business and dilute stockholder value.
We completed the acquisitions of Mediasite KK in Japan and MediaMission (now Sonic Foundry International) in the Netherlands in fiscal 2014. As a result of these acquisitions, we must integrate our products, services, dispersed operations, management systems and very different cultures. In the future, we may acquire or form strategic alliances or partnerships with other businesses in order to remain competitive or to acquire new technologies. Acquisitions, alliances and investments involve numerous risks, including:

- The potential failure to achieve the expected benefits of the combination or acquisition;
- Difficulties in and the cost of integrating operations, technologies, services and personnel;
- Diversion of financial and managerial resources from existing operations;
- Risk of entering new markets in which we have little or no experience or where competitors may have stronger market positions;
- Potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- Potential loss of key employees;
- Inability to generate sufficient revenue to offset acquisition or investment costs;
- The inability to maintain relationships with customers and partners of the acquired business;
- The difficulty of transitioning the acquired technology onto our existing platforms and maintaining the security standards consistent with our other services for such technology;
- Potential unknown liabilities associated with the acquired businesses;
- Unanticipated expenses related to acquired technology and its integration into existing technology;
- Negative impact to our results of operations because of the depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation, and the loss of acquired deferred revenue and unbilled deferred revenue;
- Delays in customer purchases due to uncertainty related to any acquisition;
- The need to implement controls, procedures and policies at the acquired company;

- Challenges caused by distance, language and cultural differences;
- In the case of foreign acquisitions, the challenges associated with integrating operations across different cultures and languages and currency, technological, employee and other regulatory risks and uncertainties in the economic, social and political conditions associated with specific countries; and
- The tax effects of any such acquisitions.

Our failure to successfully manage the acquisitions of Mediasite KK and Sonic Foundry International, or other future acquisitions, strategic alliances or partnerships could seriously harm our operating results. In addition, our stockholders would be diluted if we finance the future acquisitions, strategic alliances or partnerships by incurring convertible debt or issuing equity securities.

Company Risks – Compliance

Our customers may use our products to share confidential and sensitive information, and if our system security is breached, our reputation could be harmed and we may lose customers.
Our customers may use our products and services to share confidential and sensitive information, the security of which is critical to their business. Third parties may attempt to breach our security for customer hosted content or the networks of our customers.

Malicious third-parties may also conduct attacks designed to temporarily deny customers access to our services. Customers may take inadequate security precautions with their sensitive information and may inadvertently make that information public. We may be liable to our customers or subject to fines for a breach in security, and any breach could harm our reputation and cause us to lose customers. In addition, customers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We may be required to expend significant capital and other resources to further protect against security breaches or to resolve problems caused by any breach, including litigation-related expenses if we are sued.

Our business is subject to changing regulations regarding corporate governance and public disclosure that will increase both our costs and the risk of noncompliance.
As a publicly traded company we are subject to significant regulations, including the Sarbanes-Oxley Act of 2002. While we have developed and instituted a corporate compliance program based on what we believe are the current best practices and continue to update the program in response to newly implemented regulatory requirements and guidance, we cannot assure that we are or will be in compliance with all potentially applicable regulations.

Although our non-affiliate market capitalization was less than $75 million at March 31, 2020 and we were therefore not required to have an auditor attestation on our internal controls over financial reporting for fiscal 2020, SEC rules may in the future require us to have such an attestation if our non-affiliate market capitalization exceeds a certain threshold. We have found material weaknesses in our internal control over financial reporting in the past and cannot assure that in the future our management or our auditors, will not find additional material weaknesses in connection with our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We also cannot assure that we could correct all such weaknesses to allow our management to attest that we have maintained effective internal controls over financial reporting as of the end of our fiscal year in time to enable our independent registered public accounting firm to attest that such assessment will have been fairly stated in our Annual Report on Form 10-K to be filed with the Securities and Exchange Commission or attest that we have maintained effective internal control over financial reporting as of the end of our fiscal year. If we fail to comply with any of these regulations, we could be subject to a range of regulatory actions, fines, or other sanctions or litigation. In addition, the disclosure of any material weakness in our internal control over financial reporting could have a negative impact on our stock price.

On June 28, 2018, the SEC adopted amendments that raise the thresholds in the smaller reporting company ("SRC") definition, thereby expanding the number of smaller reporting companies eligible to comply with the scaled disclosure requirements in several Regulation S-K and Regulation S-X items. On March 12, 2020, the SEC adopted an amendment that provides for a new subset of firms with annual revenues of less than $100 million and a public float of $250 million or more, but less than $700 million, or public float of $75 million or more, but less than $250 million, regardless of annual revenues, that also qualify as smaller reporting companies to be exempt from the requirement to have an auditor attestation on its internal controls over financial reporting. The amended definition of a smaller reporting company, and the creation of a new subset of firms that are exempt from the auditor attestation requirement, reduces the likelihood that the Company would be required to have auditor attestation on our internal controls over financial reporting in future periods.

Industry Risks

Economic conditions could materially adversely affect the Company.
Weakness in domestic markets and global uncertainties exist in many areas of focus for us including the United Kingdom, Japan and the Middle East. Many of our customers rely on local, state or Federal government funding, both domestic and international. The Japanese government provides subsidies to support higher education from time to time but has not been consistent. Any future delay or elimination of government programs will have a negative impact on our operations in Japan. Any continuing unfavorable economic conditions could continue to negatively affect our business operating results or financial condition, which could in turn affect our stock price. Weak economic conditions and the resulting impact on the availability of public funds along with the possibility of state and local budget cuts and reduced university enrollment could lead to a reduction in demand for our products and services. In addition, a prolonged economic downturn could cause insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of the Company's products and inability or delay of our channel partners and other customers to pay accounts receivable owed to us.

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

We could lose revenues if there are changes in the spending policies or budget priorities for government funding of colleges, universities, schools and other education providers.
Most of our customers and potential customers are public colleges, universities, schools and other education providers who depend substantially on government funding. Accordingly, any general decrease, delay or change in federal, state or local funding for colleges, universities, schools and other education providers could cause our current and potential customers to reduce or delay their purchases of our products and services, or to decide not to renew service contracts, either of which could cause us to lose revenues. In addition, a specific reduction in governmental funding support for products such as ours would also cause us to lose revenues. Unfavorable economic conditions may result in further budget cuts and lead to lower overall spending, including information technology spending, by our current and potential clients, which may cause our revenues to decrease.

Changes in U.S. trade policy, including the imposition of tariffs and the resulting consequences, may have a material adverse impact on our business, operating results and financial condition.
The U.S. government has indicated its intent to adopt a new approach to trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements. It has also initiated tariffs on certain foreign goods and has raised the possibility of imposing significant, additional tariff increases or expanding the tariffs to capture other types of goods. In response, certain foreign governments have imposed retaliatory tariffs on goods that their countries import from the U.S. Changes in U.S. trade policy have resulted in one or more foreign governments, including China, adopting responsive trade policies that make it more difficult or costly for us to do business in or import our products from those countries. As a result of tariffs in China, the cost of our products has increased. Additional trade restrictions may lead to increased prices to our customers, which may reduce demand, or, if we are unable to achieve increased prices, result in lowering our margin on products sold.

We cannot predict the extent to which the U.S. or other countries will impose quotas, duties, tariffs, taxes or other similar restrictions upon the import or export of our products in the future, nor can we predict future trade policy or the terms of any renegotiated trade agreements and their impact on our business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to adversely impact demand for our products, our costs, our customers, our suppliers, and the U.S. economy, which in turn could have a material adverse effect on our business, operating results and financial condition.

Privacy concerns and laws, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our solutions and adversely affect our business.
Regulation related to the provision of services on the Internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information, including health data. In some cases, foreign data privacy laws and regulations, such as the European Union's General Data Protection Regulation that was enacted in May 2018, and an amended Act on the Protection of Personal Information in Japan, impose new obligations directly on us both as a data controller and a data processor, as well as on many of our customers. These

new laws may require us to make changes to our services and/or our customers to meet the new legal requirements, and may also increase our potential liability exposure through higher potential penalties for non-compliance. Further, laws such as the European Union's proposed e-Privacy Regulation are increasingly aimed at the use of personal information for marketing purposes, and the tracking of individuals' online activities. These new or proposed laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our services, require us to take on more onerous obligations in our contracts, restrict our ability to store, transfer and process data or, in some cases, impact our ability to offer our services in certain locations or our customers' ability to deploy our solutions globally. For example, ongoing legal challenges in Europe to the mechanisms allowing companies to transfer personal data from the European Economic Area to the United States could result in further limitations on the ability to transfer data across borders, particularly if governments are unable or unwilling to reach new or maintain existing agreements that support cross-border data transfers, such as the EU-U.S. and Swiss-U.S. Privacy Shield framework. Additionally, certain countries have passed or are considering passing laws requiring local data residency. In addition, domestic data privacy laws, such as the California Consumer Privacy Act ("CCPA"), which took effect in January 2020, continue to evolve and could expose us to further regulatory burdens. Further, laws such as the European Union's proposed e-Privacy Regulation are increasingly aimed at the use of personal information for marketing purposes, and the tracking of individuals' online activities. The costs of compliance with, and other burdens imposed by, privacy laws, regulations and standards may limit the use and adoption of our services, reduce overall demand for our services, make it more difficult to meet expectations from or commitments to customers, lead to significant fines, penalties or liabilities for noncompliance, or slow the pace at which we close sales transactions, any of which could harm our business.

We likely will need to acquire software and hardware in order to enhance our ability to defend and to detect intrusions to our network infrastructure. These enhancements will be expensive and require significant staff time to deploy and develop. These risks are mitigated, to the extent possible, by our ability to maintain and improve business and data governance policies, enhanced processes and internal security controls, including our ability to escalate and respond to known and potential risks. Our executive management are regularly briefed on our cyber-security policies and practices and ongoing efforts to improve security, as well as periodic updates on cyber-security events. In addition, we update our Audit Committee at least annually regarding our processes for evaluating and mitigating risks including cyber related risks. Although we have developed systems and processes designed to protect our customers' and our customers' customers' proprietary and other sensitive data, we can provide no assurances that such measures will be effective.

In addition to government activity, privacy advocacy and other industry groups have established, or may establish, new self-regulatory standards that may place additional burdens on us. Many of our customers in the European Union face increasingly complex procurement requirements that have delayed some projects and caused us not to be successful in winning other opportunities. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

Our customers and potential customers do business in a variety of industries, including financial services, the public sector, healthcare and telecommunications. Regulators in certain industries have adopted and may in the future adopt regulations or interpretive positions regarding the use of cloud computing and other outsourced services. The costs of compliance with, and other burdens imposed by, industry-specific laws, regulations and interpretive positions may limit customers' use and adoption of our services and reduce overall demand for our services.

The costs of compliance with, and other burdens imposed by laws, regulations and standards, may limit the use and adoption of our service and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance.

Furthermore, concerns regarding data privacy may cause the users of our customers' data to resist providing the data necessary to allow our customers to use our service effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or services, and could limit adoption of our cloud-based solutions.

We face risks associated with government regulation of the internet and related legal uncertainties.
Currently, few existing laws or regulations specifically apply to the Internet, other than laws generally applicable to businesses. Many Internet-related laws and regulations, however, are pending and may be adopted in the United States, in individual states and local jurisdictions and in other countries. These laws may relate to many areas that impact our business, including encryption, network and information security, and the convergence of traditional communication services, such as telephone services, with Internet communications, taxes and wireless networks. These types of regulations could differ between countries and other political and geographic divisions both inside and outside the United States. Non-U.S. countries and political organizations may impose, or favor, more and different regulation than that which has been proposed in the United States, thus furthering the complexity of regulation. Certain countries have implemented, or may implement, legislative and technological actions that either do or can effectively regulate access to the Internet, including the ability of Internet Service Providers to limit access to specific

websites or content. In addition, state and local governments within the United States may impose regulations in addition to, inconsistent with, or stricter than federal regulations. The adoption of such laws or regulations, and uncertainties associated with their validity, interpretation, applicability and enforcement, may affect the available distribution channels for, and the costs associated with, our products and services. The adoption of such laws and regulations may harm our business.

Investor Risks

The market price of our common stock may be subject to volatility.
In the past and through 2020, the trading prices of the securities of technology companies have been more volatile than the broader market. Factors affecting the market price of our common stock include:

- Variations in our operating results, earnings per share, cash flows from operating activities, deferred revenue and other financial metrics and non-financial metrics, and how those results compare to investor expectations;
- Our announcement of actual results for a fiscal period that are higher or lower than expected results;
- Changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- Announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- Announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;
- Announcements of customer additions and customer cancellations or delays in customer purchases;
- Recruitment or departure of key personnel;
- Disruptions in our service due to computer hardware, software, network or data center problems;
- The economy, market conditions in our industry and the industries of our customers;
- The issuance of shares of common stock and preferred stock by us, whether in connection with an acquisition or a capital raising transaction;
- Low trading volumes of our shares and inconsistent trading activity;
- Issuance of debt, changes to, defaults or non-renewal of debt facilities and other convertible securities;
- Failure to meet OTC market requirements; and
- Any other factors discussed herein.
- In addition, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the market price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price of our common stock might also decline in reaction to events that affect other companies within, or outside, our industry even if these events do not directly affect us.

Our common stock is subject to low trading volume and broad price swings.
Our common stock is quoted on the OTC Market (“OTC Pink Sheets”) administered by the Financial Industry Regulatory Authority under the symbol “SOFO” since February 18, 2019. Prior to that, our common stock was traded on the OTCQB since December 31, 2018 and before that, the NASDAQ exchange under the same symbol. Trading of our stock on the OTC Pink Sheets has often been subject to very low volumes, broad price swings and often with no Company news.

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

At September 30, 2020, we had 299 thousand outstanding warrants and 1.7 million of outstanding stock options granted under our stock option plans, 1.4 million of which are immediately exercisable.

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

Provisions of our charter documents and Maryland law could also discourage an acquisition of our Company that would benefit our stockholders and, due to our insiders control of a substantial percentage of our stock, our officers, directors, and major stockholders will have a substantial amount of control over whether to approve or disapprove of a transaction.
Provisions of our articles of incorporation and by-laws may make it more difficult for a third party to acquire control of our company, even if a change in control would benefit our stockholders. Our articles of incorporation authorize our board of directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. Furthermore, our articles of incorporation provide for a classified board of directors, which means that our stockholders may vote upon the retention of only one or two of our five directors each year. Moreover, Maryland corporate law restricts certain business combination transactions with “interested stockholders” and limits voting rights upon certain acquisitions of “control shares.” In addition, even when there are no interested stockholders involved in a transaction, Maryland law requires that a transaction involving a merger, consolidation, transfer of assets, or share exchange, must be approved by the affirmative vote of at least two-thirds of the Company’s stockholders.

Our executive officers and directors together beneficially own, on an “as converted basis”, over 50% of our outstanding common stock, and Mr. Burish, individually, owns nearly 42% on an as converted basis. As a result, these stockholders, if they act together or in a block, or individually in the case of Mr. Burish, could have significant influence over most matters that require approval by our stockholders, including the approval of significant corporate transactions, even if other stockholders oppose them. In addition, under federal law, in many circumstances a company such as Sonic Foundry is not required to disclose that negotiations relating to a merger or to a sale of its stock or assets are occurring until a material definitive agreement has been reached. Concentration of ownership as described here might also have the effect of delaying or preventing a change of control of our Company that other stockholders may view as beneficial.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal office is located in Madison, Wisconsin in a leased facility of approximately 26,000 square feet. The building serves as our corporate headquarters, accommodating our general and administrative, product development and selling and marketing departments. We believe this facility is adequate for our needs. The current lease term for this office expires on December 31, 2021. The rent for the remainder of the lease period is approximately $60 thousand per month.

Our operations in Japan are managed in Tokyo, Japan in a leased facility of approximately 9,874 square feet with a term expiring on December 31, 2021. The facility includes sales, technical and administrative functions. The rent through December 31, 2020 is approximately $41 thousand per month. Beginning on January 1, 2021, the monthly rent will increase to approximately $55 thousand per month.

Our European operations are managed in Utrecht, Netherlands in a leased facility of approximately 3,886 square feet with a term expiring on January 31, 2022. The facility includes sales, technical and administrative functions. The rent for the remainder of the lease period is approximately $5 thousand per month.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Price Range of Common Stock

Our common stock was initially traded on the American Stock Exchange under the symbol "SFO," beginning with our initial public offering in April of 1998. On April 24, 2000, our common stock began trading on the NASDAQ Global Market under the symbol "SOFO." Effective September 16, 2009, we transferred the listing of our common stock to the NASDAQ Capital Market. Effective December 31, 2018, we transferred the listing of our common stock to the OTCQB Market under the symbol "SOFO". Effective February 18, 2019, we transferred the listing of our common stock to the OTC Pink Sheets under the symbol "SOFO". The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on the NASDAQ Capital Market, the OTCQB Market, and the OTC Pink Sheets.

	High	Low
Year Ended September 30, 2021:		
First Quarter (through November 27, 2020)	3.80	2.76
Year Ended September 30, 2020:		
First Quarter	1.40	0.92
Second Quarter	3.95	1.28
Third Quarter	5.23	2.00
Fourth Quarter	4.96	3.07
Year Ended September 30, 2019:		
First Quarter	1.71	0.60
Second Quarter	1.77	0.62
Third Quarter	1.17	0.72
Fourth Quarter	1.44	0.86

Dividends

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

Conversion of Related-Party Debt to Equity

On March 5, 2020, the Company announced that its special committee of disinterested and independent directors retained Silverwood Partners LLC, an investment banking firm specializing in digital media technology, to evaluate strategic alternatives for the Company.

On April 8, 2020, the company received an offer from Mr. Mark Burish, the current Chairman of the Board, to purchase all outstanding shares of the Company's common stock not presently held by Mr. Burish for $5.00 per share. After concluding no other strategic alternatives existed for the Company at that time, the Company announced on April 27, 2020 that its special committee of disinterested and independent directors had accepted the offer from Mr. Burish.

Shortly following the announcement, however, a number of shareholders advised they were opposed to the transaction and felt opportunities available to the company now, in view of the video-first, distance learning environment resulting from the COVID crisis, may provide pathways to achieve greater value. Concerned that a proposal would not obtain the required shareholder approval, the company and Mr. Burish agreed to not pursue the transaction at that time, and instead, continue to pursue other strategic alternatives to enhance both Company and shareholder value, improve the Company's financial position, and provide the Company with resources to further its growth opportunities.

On May 14, 2020, the Company announced it had agreed to convert $5.6 million of existing secured debt to Mr. Burish into 1,114,723 shares of its common stock at $5.00 per share. The transaction was recommended by the Company's special committee of disinterested and independent directors and unanimously approved by all disinterested directors of the Company. Silverwood Partners LLC issued a fairness opinion in connection with the transaction.

The Company relied on Section 4(a)(2) of the Securities Act of 1933, as amended, to issue the Promissory Notes and stock, inasmuch as the director and the affiliated party both received from the Company information that registration would provide and neither the Company nor any person acting on its behalf offered or sold the Notes or stock by any form of general solicitation or general advertising.

Holders

At December 14, 2020, there were 227 common stockholders of record and approximately 3,000 total shareholders. Many shares are held by brokers and other institutions on behalf of shareholders.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders (1)	1,707,515	$ 5.09	967,117
Equity compensation plans not approved by security holders (2)	—	—	—
Total	1,707,515	$ 5.09	967,117

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial and operating data were derived from our consolidated financial statements. The selected financial data set forth below is qualified in its entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto appearing elsewhere in this annual report on Form 10-K (in thousands except per share data).

	Years Ended September 30,				
	2020	**2019**	**2018**	**2017**	**2016**
Statement of Operations Data:					
Revenue	$ 34,753	$ 34,781	$ 34,544	$ 36,000	$ 37,975
Cost of revenue	9,634	9,280	9,656	9,867	9,985
Gross margin	25,119	25,501	24,888	26,133	27,990
Operating expenses	24,383	28,009	29,118	30,091	30,266
Impairment of goodwill & intangible assets	—	—	11,809	600	—
Income (loss) from operations	736	(2,508)	(16,039)	(4,558)	(2,276)
Other income (expense), net	(109)	(117)	142	(65)	(178)
Interest expense, net	(658)	(897)	(601)	(495)	(594)
Benefit (provision) for income taxes	(148)	(90)	4,332	79	(269)
Net loss	$ (179)	$ (3,612)	$ (12,166)	$ (5,039)	$ (3,317)
Dividends on preferred stock	$ —	$ (122)	$ (257)	$ (169)	$ —
Net loss attributable to common shareholders	$ (179)	$ (3,734)	$ (12,423)	$ (5,208)	$ (3,317)
Basic net loss per common share	$ (0.02)	$ (0.64)	$ (2.67)	$ (1.17)	$ (0.76)
Diluted net loss per common share	$ (0.02)	$ (0.64)	$ (2.67)	$ (1.17)	$ (0.76)

Weighted average common shares:					
– Basic	7,216,135	5,833,301	4,655,520	4,436,333	4,389,421
– Diluted	7,216,135	5,833,301	4,655,520	4,436,333	4,389,421

Balance Sheet Data at September 30:	**2020**	**2019**	**2018**	**2017**	**2016**
Cash and cash equivalents	$ 7,619	$ 4,295	$ 1,189	$ 1,211	$ 1,794
Working capital (deficit)	(1,488)	(847)	(5,765)	(4,833)	(3,720)
Total assets	22,629	15,180	13,583	28,356	33,082
Long-term liabilities	5,373	7,602	3,451	8,147	7,249
Stockholders' equity (deficit)	(1,048)	(6,253)	(6,458)	3,118	6,516

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.

This report includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: "Management's Discussion and Analysis," and "Risk Factors." These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in "Risk Factors" (Part 1, Item 1A of this Form 10-K), "Quantitative and Qualitative Disclosures about Market Risk" (Part II, Item 7A of this Form 10-K), and in this Item 7. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

Overview

Sonic Foundry, Inc. is a trusted global leader for video capture, management and streaming solutions. Trusted by educational institutions, corporations and government entities, Mediasite Video Platform quickly and cost-effectively automates the capture, management, delivery and search of live and on-demand streaming video. Mediasite transforms communications, training, education and events for our customers worldwide.

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, inventory reserves and allowance for doubtful accounts;
- Asset retirement obligations;
- Valuation allowance for net deferred tax assets; and
- Accounting for stock-based compensation.

Revenue recognition

We recognize revenues in accordance with Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"). Recording revenues requires judgment, including determining whether an arrangement includes multiple performance obligations, whether any of those obligations are distinct and cannot be combined and allocation of the transaction price to each performance obligation based on the relative standalone selling prices ("SSP"). Customers receive certain contract elements over time. Changes to the elements in an arrangement or, in our determination, to the relative SSP for these elements, could materially affect the amount of earned and unearned revenues reflected in our consolidated financial statements.

The primary judgments relating to our revenue recognition include determining whether (i) the contract with a customer exists; (ii) performance obligations are identified; (iii) the transaction price is determined; (iv) the transaction price is allocated to performance obligations; and (v) the distinct performance obligations are satisfied by transferring control of the product or service to the client. Transfer of control is typically evaluated from the customer's perspective.

At contract inception, we determine whether we satisfy the performance obligation over time or at a point in time. Revenues from software and hosting solutions are primarily recognized ratably over time or as fee-bearing usages occur. Certain software licenses are sold either on-premises or through term-based hosting agreements. These hosting arrangements provide customers with the same product functionality and differ mainly in the duration over which the customer benefits from the software. We deliver our software licenses electronically. Electronic delivery occurs when we provide the customer with access to the software and license key via a secure portal. Revenue from on-premises software licenses is generally recognized upfront at the point in time when the software is made available to the customer.

Our contracts with customers for on-premises software licenses include maintenance services and may also include training and/or professional services. Maintenance services agreements consist of fees for providing software updates on an if and when available basis and for providing technical support for software products for a specified term. We believe that our software updates and technical support each have the same pattern of transfer to the customer and are substantially the same. Therefore, we consider these updates and technical support to be a single distinct performance obligation. Revenues allocated to maintenance services are recognized ratably as the maintenance services are provided. Revenues related to training services are billed on a fixed fee basis and are recognized as the services are delivered. Payments received in advance of services performed are deferred and recognized when the related services are performed. Revenues related to professional services are billed on a time and materials basis and are recognized as the services are performed.

We also provide cloud-based subscriptions, which allow customers to access our software during a contractual period without taking possession of the software. We recognize revenue related to these cloud-based subscriptions ratably over the life of the subscription agreement beginning when the customer first has access to the software.

We are often party to multiple concurrent contracts or contracts pursuant to which a client may purchase a combination of goods and services. These situations require judgment to determine whether multiple contracts should be combined and accounted for as a single arrangement. In making this determination, we consider whether the economics of the individual contracts cannot be understood without reference to the whole and multiple promises represent one single performance obligation.

Due to the large number, broad nature and average size of individual contracts we are a party to, the effect of judgments and assumptions we apply in recognizing revenues for any single contract is not likely to have a material effect on our consolidated operations. However, the broader accounting policy assumptions that we apply across similar arrangements or classes of clients could significantly influence the timing and amount of revenues recognized in our results of operations.

Reserves

Beginning in fiscal year 2020, the Company established a hardware inventory reserve. In conjunction with a new hardware release due in the fourth quarter, certain older models are no longer being actively sold and those units, along with their corresponding raw materials, have been 100% reserved.

Credit Evaluation and Allowance for Doubtful Accounts

We assess the realization of our receivables by performing ongoing credit evaluations of our customers' financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. Our reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information is received. Our reserves are also based on amounts determined by using percentages applied to certain aged receivable categories. These percentages are determined by a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. Allowance for doubtful accounts for accounts receivable and financing receivables was $236 thousand at September 30, 2020 and $661 thousand at September 30, 2019.

Asset retirement obligation

An asset retirement obligation ("ARO") represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. The Company's ARO is associated with MSKK leasehold improvements that we are contractually obligated to remove at the end of a lease to comply with the lease agreement. We recognize asset retirement obligations upon construction of leasehold improvements with such conditions if a reasonable estimate of fair value can be made. The ARO is recorded in other noncurrent liabilities in the Consolidated Balance Sheets. The associated estimated ARO is capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

Valuation allowance for net deferred tax assets

Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. We do not provide for U.S. income taxes on the undistributed earnings of our foreign subsidiaries, which we consider to be permanently invested outside of the U.S.

We make judgments regarding the realizability of our deferred tax assets. The balance sheet carrying value of our net deferred tax assets is based on whether we believe that it is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets after consideration of all available evidence. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. Generally, cumulative losses in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed.

As of September 30, 2020 and 2019, valuation allowances have been established for all U.S. and for certain foreign deferred tax assets which we believe do not meet the “more likely than not” criteria for recognition. If we are subsequently able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been established, then we will be required to recognize these deferred tax assets through the reduction of the valuation allowance, which could result in a material benefit to our results of operations in the period in which the benefit is determined.

Accounting for stock-based compensation

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

All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measured.

Restructuring and exit activities

The determination of when the Company accrues for involuntary termination benefits under restructuring plans depends on whether the termination benefits are provided under an on-going benefit arrangement or under a one-time benefit arrangement. The Company accounts for on-going benefit arrangements in accordance with Accounting Standards Codification 712 ("ASC 712") *Nonretirement Postemployment Benefits.* According to ASC 712, involuntary termination benefits would be measured and recognized when the expense is both probable and estimatable. For those employees who have a severance arrangement outlined under an existing employment agreement, the communication date would be the date of hire since at that point in time, the Company and the employee had a mutual understanding of the agreement. The measurement and recognition date of the expense would occur when the Company is committed to the plan and it is probable the impacted employee is entitled to the termination benefit. The Company accounts for one-time benefit arrangements in accordance with ASC 420 E*xit or Disposal Cost Obligations*. According to ASC 420, an arrangement for one-time employee termination benefits exists at the date the plan of termination meets certain criteria and has been communicated to employees.

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, customization services, 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 both fiscal 2020 and fiscal 2019 totaled $34.8 million. Revenue consisted of the following:

- Product and other revenue from the sale of Mediasite recorder units and server software decreased from $11.6 million in fiscal 2019 to $10.3 million in fiscal 2020. Mediasite recorder revenue declined $1.1 million from fiscal 2019 to fiscal 2020. The table below outlines units sold as well as the proportion of mobile units to rack units, which continues to widen as sales of the mobile units decline.

	2020	2019
Units sold	1,114	1,269
Rack to mobile ratio	11.9 to 1	8.2 to 1
Average sales price, excluding support (000's)	$5.30	$5.30
Refresh Units	272	547

- Services revenue represents the portion of fees charged for Mediasite customer support and hosting contracts amortized over the length of the contract, typically 12 months. It also includes point in time service revenue such as installations and training, custom development, and event services. Total services revenue increased from $23.2 million in fiscal 2019 to $24.4 million in fiscal 2020 primarily due to increases in custom development and hosting revenues as compared to fiscal 2019.

- At September 30, 2020, $12.1 million of revenue was deferred, of which we expect to recognize $10.4 million in the next twelve months, including approximately $4.1 million in the quarter ending December 31, 2020. At September 30, 2019, $11.5 million of revenue was deferred. The increase in deferred revenue is due to increased billings in the fourth quarter of fiscal year 2020 compared to the same period in 2019.

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

Gross Margin

Total gross margin in fiscal 2020 was $25.1 million or 72% compared to $25.5 million or 73% in fiscal 2019. The slight decline year over year is attributed to the establishment of an $122 thousand obsolescence reserve for inventory as well as additional labor costs associated with a custom development project. The Company expects the gross margin percentage to be reduced slightly in fiscal 2021, as a result of increased costs associated with our new data center in the UK.

Operating Expenses

Selling and Marketing Expenses

Selling and marketing expenses include wages and commissions for sales, marketing and business development personnel, print and digital advertising, tradeshows 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 decreased $1.7 million, or 12%, from $14.7 million in fiscal 2019 to $13.0 million in fiscal 2020. Fluctuations in the major categories include:

- Salary, commissions and benefits decreased by $760 thousand due to reduced headcount in the later half of 2019.
- Advertising and professional services decreased by $209 thousand.

- T&E decreased $691 thousand due to the impact of COVID on travel beginning in February 2020.
- Selling and marketing expenses for Sonic Foundry International and MSKK accounted for $653 thousand and $2.6 million, respectively in fiscal 2020, an aggregate increase of $78 thousand from the prior year.

At September 30, 2020, we had 97 employees in selling and marketing, a decrease from 117 employees at September 30, 2019. Of the 97 employees in selling and marketing at September 30, 2020, 50 are employed by our foreign subsidiaries. We do not anticipate an increase in selling and marketing headcount in fiscal 2021.

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 decreased by $874 thousand, or 15%, to $5.1 million in fiscal 2020 from $5.9 million in fiscal 2019. Fluctuations in major categories include:

- Decrease in non-severance related compensation and benefits of $347 thousand due to attrition in Q2 of fiscal 2020.
- Decrease in severance expense for executives of $93 thousand.
- Increase in professional fees of $207 thousand due to costs associated with the work of the special committee.
- Depreciation decreased $148 thousand compared to fiscal 2019.
- G&A expenses for Sonic Foundry International and MSKK accounted for $288 thousand and $880 thousand, respectively, in fiscal 2020, an aggregate decrease of $246 thousand from the prior year.

At September 30, 2020, we had 16 full-time employees in G&A, a decrease from 23 full-time employees at September 30, 2019. Of the 16 employees in G&A at September 30, 2020, 5 are employed by our foreign subsidiaries. We do not anticipate an increase in G&A headcount in fiscal 2021.

Product Development Expenses

Product development expenses include salaries and wages of the software research and development staff and an allocation of benefits, facility and administrative expenses.

Product development expenses decreased $1.1 million, or 14%, from $7.4 million in fiscal 2019 to $6.3 million in fiscal 2020. Fluctuations include:

- Decrease in compensation and benefits of $1.1 million due to the elimination of two senior level management positions in fiscal 2019, as well as other attrition during late fiscal 2019 and early fiscal 2020 that was not backfilled until later in the year.
- Professional services increased by $170 thousand due to the utilization of non-recurring engineering resources.
- Product development expenses for Sonic Foundry International and MSKK accounted for $457 thousand and $318 thousand, respectively, for fiscal 2020, an aggregate increase of $11 thousand from the prior year related to the subsidiaries.

At September 30, 2020, we had 48 full-time employees in product development compared to 43 employees at September 30, 2019. Of the 48 employees in product development at September 30, 2020, 8 are employed by our foreign subsidiaries. There were no software development efforts in fiscal 2020 or 2019 that qualified for capitalization. We do not anticipate an increase in product development headcount in fiscal 2021.

Other Income and Expense, Net

Interest expense for fiscal 2020 decreased $239 thousand compared to fiscal 2019, mainly as a result of the Burish debt to equity conversion in May 2020. The Company also recorded $79 thousand of interest expense during fiscal 2020 related to the accretion of discounts on the PFG Loan and Warrant Debt compared to $74 thousand in the same period last year. In addition, the Company recorded amortization expense related to the back-end fee on the PFG loan of $50 thousand during both fiscal 2020 and fiscal 2019. The Company also recorded $84 thousand of interest expense through May 14, 2020 related to the accretion of discounts on the Burish notes payable compared to $79 thousand in fiscal 2019.

Warrants were also issued in connection with the Burish note. For further details, see Note 3 - Credit Arrangements and Note 10 - Related Party Transactions.

During fiscal 2020, a change in fair value of $57 thousand was recorded related to the fair value remeasurement on the derivative liability associated with the PFG V Loan and Warrant Debt compared to a change in fair value of $5 thousand during fiscal 2019.

No foreign currency exchange gain or loss was recorded related to re-measurement of the subordinated notes payable related to the Company's foreign subsidiaries in either fiscal 2020 or 2019.

Provisions Related to Income Taxes

The Company believes the valuation allowance for its deferred tax assets is appropriate. See Note 6 - Income Taxes for further details. The repatriation of undistributed foreign earnings is not expected to result in a material change to our financial results.

Foreign Currency Translation Adjustment

The Company's wholly-owned subsidiaries operate in Japan and the Netherlands, and utilize the Japanese Yen and Euro, respectively, as their functional currency. Assets and liabilities of the Company's foreign operations are translated into US dollars at period end exchange rates whiles revenues and expenses are translated using average rates for the period. Gains and losses from the translation are deferred and included in accumulated other comprehensive loss on the consolidated statements of operations. For the year ended September 30, 2020, the Company's foreign currency translation adjustment was a gain of $84 thousand compared to a gain of $130 thousand in the year ended September 30, 2019. The gain in fiscal 2020 is attributable to the continued strengthening in the Japanese Yen and the Euro compared to the U.S. dollar.

During fiscal 2020, the Company recorded an aggregate transaction loss of $36 thousand compared to an aggregate loss of $157 thousand during fiscal 2019. The aggregate transaction gain or loss is included in the other expense line of the consolidated statements of operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are its cash and debt and equity financing. During fiscal 2020, the Company generated $3.4 million of cash in operating activities compared with $736 thousand of cash used in operating activities in fiscal 2019. The Company had a decrease in net loss in fiscal 2020 as compared to fiscal 2019 of $3.4 million, mainly due to cost saving measures instituted in fiscal 2019 and continued in fiscal 2020.

Capital expenditures for property and equipment were $1.7 million in fiscal 2020 compared to $433 thousand in fiscal 2019. The large increase is related to our new data center in the UK that went live in September 2020 as well as work in progress for our new US data center that is expected to go live in Q2 of fiscal 2021.

The Company generated $1.7 million of cash from financing activities during fiscal 2020, primarily due to proceeds from the PPP loan of $2.3 million, the Mediasite K.K. term debt of $463 thousand, and the Mediasite K.K. government assistance loan of $378 thousand. The Company also received $73 thousand from the issuance of common stock. These transactions were partially offset by debt and capital lease payments of $1.5 million. For the same period in fiscal 2019, the Company generated $4.3 million of cash from financing activities, primarily due to proceeds from the issuance of term debt of $500 thousand with PFG V and $5.0 million with Mr. Burish. The Company also received $873 thousand from the issuance of common stock and 728,155 warrants during Q3-2020. These transactions were partially offset by debt and capital lease payments of $1.1 million.

At September 30, 2020, there was no balance outstanding on the line of credit with Mitsui Sumitomo Bank.

At September 30, 2020, the Company had $860 thousand outstanding, net of warrant debt and debt discounts, related to notes payable with PFG V. At September 30, 2019, the Company had $6.4 million outstanding, net of warrant debt and debt discounts, related to notes payable with PFG V and Mr. Burish. During fiscal 2020, the Company fully converted $5.6 million of subordinated debt due to Mr. Burish into common stock, which did not and will not require cash settlement.

At September 30, 2020 approximately $2.3 million of cash and cash equivalents was held by the Company's foreign subsidiaries.

The Company believes its cash position plus available resources is adequate to accomplish its business plan through at least the next twelve months. We will likely evaluate operating and capital leases opportunities to finance equipment purchases in the future We may also seek additional equity financing, or issue additional, but there are no assurances that these will be on terms acceptable to the Company.

Contractual Obligations

The following summarizes our contractual obligations at September 30, 2020 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 and service purchase commitments	$ 1,252	$ 838	$ 414	$ —	$ —
Operating lease obligations	2,305	1,532	564	140	70
Capital lease obligations (a)	221	129	87	5	—
Notes payable (a)	3,574	1,050	2,524	—	—

(a) Includes fixed and determinable interest payments

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Financial Instruments

Pursuant to Item 305 of Regulation S-K, the Company, as a smaller reporting company, is not required to provide the information required by this item.

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, 2020, none of the Company's $3.8 million in outstanding debt is variable rate, therefore we an increase in the level of interest rates would not 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

The functional currency of our foreign subsidiaries in the Netherlands is the Euro and in Japan is the Japanese Yen. They are subject to foreign currency exchange rate risk. Any increase or decrease in the exchange rate of the U.S. Dollar compared to the Euro or Japanese Yen will impact our future operating results and financial position.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors
Sonic Foundry, Inc. and Subsidiaries

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Sonic Foundry, Inc. and Subsidiaries (the "Company") as of September 30, 2020 and 2019, and the related statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for the years ended September 30, 2020 and 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of the Company at September 30, 2020 and 2019 and the results of its operations and its cash flows for the years ended September 30, 2020 and 2019, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for leases for the year ended September 30, 2020, due to the adoption of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, and its related amendments.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Wipfli LLP

We have served as the Company's auditor since 2019.

Minneapolis, Minnesota
December 22, 2020

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

	September 30, 2020	September 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 7,619	$ 4,295
Accounts receivable, net of allowances of $236 and $135	6,250	6,532
Inventories	1,167	558
Investment in sales-type lease, current	275	163
Capitalized commissions, current	440	464
Prepaid expenses and other current assets	1,065	972
Total current assets	16,816	12,984
Property and equipment:		
Leasehold improvements	1,128	1,121
Computer equipment	7,960	5,610
Furniture and fixtures	1,366	1,233
Total property and equipment	10,454	7,964
Less accumulated depreciation and amortization	7,295	6,396
Property and equipment, net	3,159	1,568
Other assets:		
Investment in sales-type lease, long-term	76	134
Capitalized commissions, long-term	100	106
Right-of-use assets under operating leases	2,081	—
Other long-term assets	397	388
Total assets	$ 22,629	$ 15,180
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	2,689	843
Accrued liabilities	2,565	2,216
Unearned revenue	10,402	9,610
Current portion of finance lease obligations	119	194
Current portion of operating lease obligations	1,425	—
Current portion of notes payable and warrant debt, net of discounts	1,104	968
Total current liabilities	18,304	13,831
Long-term portion of unearned revenue	1,736	1,842
Long-term portion of finance lease obligations	89	179
Long-term portion of operating lease obligations	665	—
Long-term portion of notes payable and warrant debt, net of discounts	2,673	5,429
Derivative liability, at fair value	66	9
Other liabilities	144	143
Total liabilities	23,677	21,433
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $.01 par value, authorized 500,000 shares; none issued	—	—
9% Preferred stock, Series A, voting, cumulative, convertible, $.01 par value (liquidation preference of $1,000 per share), authorized 4,500 shares; zero shares issued and outstanding, at amounts paid in	—	—
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; 7,965,325 and 6,749,359 shares issued and 7,952,609 and 6,736,643 shares outstanding	80	67
Additional paid-in capital	209,022	203,735
Accumulated deficit	(209,519)	(209,340)
Accumulated other comprehensive loss	(462)	(546)
Treasury stock, at cost, 12,716 shares	(169)	(169)
Total stockholders' equity (deficit)	(1,048)	(6,253)
Total liabilities and stockholders' equity (deficit)	$ 22,629	$ 15,180

See accompanying notes to the consolidated financial statements.

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

	Years Ended September 30, 2020	Years Ended September 30, 2019
Revenue:		
Product and other	$ 10,339	$ 11,631
Services	24,414	23,150
Total revenue	34,753	34,781
Cost of revenue:		
Product and other	4,430	4,387
Services	5,204	4,893
Total cost of revenue	9,634	9,280
Gross margin	25,119	25,501
Operating expenses:		
Selling and marketing	13,025	14,727
General and administrative	5,055	5,929
Product development	6,303	7,353
Total operating expenses	24,383	28,009
Income/(loss) from operations	736	(2,508)
Non-operating income (expenses):		
Interest expense, net	(658)	(897)
Other expense, net	(109)	(117)
Total non-operating expenses	(767)	(1,014)
Loss before income taxes	(31)	(3,522)
Income tax provision	(148)	(90)
Net loss	$ (179)	$ (3,612)
Dividends on preferred stock	—	(122)
Net loss attributable to common stockholders	$ (179)	$ (3,734)
Loss per common share:		
Basic net loss per common share	$ (0.02)	$ (0.64)
Diluted net loss per common share	$ (0.02)	$ (0.64)
Weighted average common shares – Basic	7,216,135	5,833,301
– Diluted	7,216,135	5,833,301

See accompanying notes to the consolidated financial statements.

Sonic Foundry, Inc.
Consolidated Statements of Comprehensive Loss
(in thousands)

	Years Ended September 30,	
	2020	**2019**
Net loss	$ (179)	$ (3,612)
Other comprehensive loss		
Foreign currency translation adjustment	84	130
Comprehensive loss	$ (95)	$ (3,482)

See accompanying notes to the consolidated financial statements.

Sonic Foundry, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
(in thousands)

	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Receivable for common stock issued	Treasury stock	Total
Balance, September 30, 2018	$ 1,651	$ 51	$ 200,130	$ (205,728)	$ (676)	$ (26)	$ (169)	$(4,767)
Stock compensation	—	—	177	—	—	—	—	177
Conversion of preferred stock	(1,773)	6	1,767	—	—	—	—	—
Issuance of common stock and warrants	—	10	1,109	—	—	—	—	1,119
Warrants issued in connection with subordinated notes payable	—	—	674	—	—	—	—	674
Preferred stock dividends	122	—	(122)	—	—	—	—	—
Cancellation of receivable for common stock issued	—	—	—	—	—	26	—	26
Foreign currency translation adjustment	—	—	—	—	130	—	—	130
Net loss	—	—	—	(3,612)	—	—	—	(3,612)
Balance, September 30, 2019	$ —	$ 67	$ 203,735	$ (209,340)	$ (546)	$ —	$ (169)	$(6,253)
Stock compensation	—	—	158	—	—	—	—	158
Issuance of common stock and warrants	—	2	135	—	—	—	—	137
Common stock issued for extinguishment of related-party debt	—	11	4,994	—	—	—	—	5,005
Foreign currency translation adjustment	—	—	—	—	84	—	—	84
Net loss	—	—	—	(179)	—	—	—	(179)
Balance, September 30, 2020	$ —	$ 80	$ 209,022	$ (209,519)	$ (462)	$ —	$ (169)	$(1,048)

See accompanying notes to the consolidated financial statements.

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

	Years Ended September 30, 2020	Years Ended September 30, 2019
Operating activities		
Net loss	$ (179)	$ (3,612)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of other intangibles	231	307
Depreciation and amortization of property and equipment	889	970
Loss on sale of fixed assets	—	8
Provision for doubtful accounts - including financing receivables	111	116
Provision for inventory reserve	122	—
Loss on extinguishment of related party debt for equity	26	—
Stock-based compensation expense related to stock options and warrants	158	177
Stock issued for board of director's fees	63	246
Deferred loan interest to related party	317	259
Remeasurement loss (gain) on derivative liability	57	(8)
Changes in operating assets and liabilities:		
Accounts receivable	268	950
Financing receivables	—	293
Inventories	(729)	472
Investment in sales-type lease	(48)	120
Capitalized commissions	30	123
Prepaid expenses and other current assets	(57)	15
Right-of-use assets under operating leases	492	—
Operating lease obligations	(528)	—
Other long-term assets	—	—
Accounts payable and accrued liabilities	1,503	(204)
Other long-term liabilities	(2)	(68)
Unearned revenue	617	(900)
Net cash provided by (used in) operating activities	3,341	(736)
Investing activities		
Purchases of property and equipment	(1,736)	(433)
Net cash used in investing activities	(1,736)	(433)
Financing activities		
Proceeds from notes payable	3,157	5,500
Proceeds from lines of credit	—	9,199
Payments on notes payable	(1,358)	(833)
Payments on lines of credit	—	(10,098)
Payments of debt issuance costs	—	(110)
Proceeds from issuance of common stock	73	873
Payments on capital lease and financing arrangements	(202)	(250)
Net cash provided by financing activities	1,670	4,281
Changes in cash and cash equivalents due to changes in foreign currency	49	(6)
Net increase in cash and cash equivalents	3,324	3,106
Cash and cash equivalents at beginning of year	4,295	1,189
Cash and cash equivalents at end of year	$ 7,619	$ 4,295
Supplemental cash flow information:		

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

Interest paid	$ 148	$ 618
Income taxes paid, foreign	154	99
Non-cash financing and investing activities:		
Property and equipment financed by finance lease or accounts payable	724	186
Debt discount and warrant	—	679
Preferred stock dividend paid in additional shares	—	122
Conversion of preferred shares to common shares	—	1,773
Common stock issued for extinguishment of related party debt	5,005	—

See accompanying notes to the consolidated financial statements.

1. Basis of Presentation and Significant Accounting Policies

Business

Sonic Foundry, Inc. (the Company) is in the business of providing video enterprise solutions and services for the digital-first, distance learning and corporate communications market.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Sonic Foundry Media Systems, Inc., Sonic Foundry International B.V. (formerly Media Mission B.V.) and Mediasite K.K. All significant intercompany transactions and balances have been eliminated.

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.

Assets Recognized from the Costs to Obtain a Contract with a Customer

Sales commissions and related expenses are considered incremental and recoverable costs of acquiring customer contracts. These costs are capitalized and amortized on a straight-line basis over the anticipated period of benefit, which we have determined to be the contract period, typically around 12 months. Assets recorded are included in current assets and other long-term assets. Amortization expense is recorded in sales and marketing expense within our consolidated statement of operations. We calculate a quarterly average percentage based on actual commissions incurred on billings during the same period and apply that percentage to the respective periods' unearned revenues to determine the capitalized commission amount.

Revenue Recognition

We generate revenues in the form of hardware sales of our Mediasite recorder and Mediasite related products, such as our server software and other software licenses and related customer support and services fees, including hosting, installations and training, and events services. Software license revenues include fees from sales of perpetual and term licenses. Maintenance and services revenues primarily consist of fees for maintenance services (including support and unspecified upgrades and enhancements when and if they are available), hosting, installation, training and other professional services.

Invoices are billed when a customer contract, purchase order or signed quote is obtained from the customer. No revenue is recognized prior to such a customer authorization. In some renewal circumstances, we continue to provide services, typically customer support, during the period when our sales team is working to obtain a customer authorization to avoid customer attrition. Typically, we would bill for this period such that the customer support contract does not lapse. Consistent with historical company practices, we would recognize revenue for the periods where services have already been rendered once customer authorization has occurred.

Products

Products are considered delivered, and revenue is recognized, when title and risk of loss have been transferred to the customer or upon customer acceptance if non-delivered products or services are essential to the functionality of delivered products. 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.

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 dealers, 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 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. Occasionally, the Company will sell customization services to enhance the server software. Revenue from those services is recognized when performed, if perfunctory, or under contract accounting. Service amounts invoiced to customers in excess of revenue recognized are recorded as deferred revenue until the revenue recognition criteria are met.

Revenue Recognition

In accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"), revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods and services. To achieve this core principle, we apply the following five steps:

1. *Identify the contract with a customer.* A contract with a customer exists when: (1) we and the customer have approved the contract and both parties are committed to perform their respective obligations; (2) we can identify each party's rights regarding the products or services to be transferred; (3) we can identify the payment terms for the products or services to be transferred; (4) the contract has commercial substance as our future cash flows are expected to change; and (5) it is probable that we will collect substantially all of the consideration to which we are entitled in exchange for the products or services. Any subsequent contract modifications are analyzed to determine the treatment of the contract modification as a separate contract, prospectively or through a cumulative catch-up adjustment.
2. *Identify the performance obligations in the contract.* Performance obligations are promises to transfer a good or service to the customer. Performance obligations may be each individual promise in a contract, or may be groups of promises within a contract that significantly affect one another. To the extent a contract includes multiple promises, we must apply judgment to determine whether promises are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promises are accounted for as a combined performance obligation.
3. *Determine the transaction price.* The transaction price is the total amount of consideration to which we expect to be entitled in exchange for transferring promised products and services to a customer.
4. *Allocate the transaction price to performance obligations in the contract.* The allocation of the transaction price to performance obligations is generally done in proportion to their standalone selling prices ("SSP"). SSP is the price that we would sell a distinct product or service separately to a customer and is determined at contract inception. If SSP is not available through the analysis of observable inputs, this step is subject to significant judgment and additional analysis so that we can establish an estimated SSP. The estimated SSP considers historical information, including demand, trends and information about the customer or class of customers.

5. *Recognize revenues when or as the company satisfies a performance obligation.* We recognize revenues when, or as, distinct performance obligations are satisfied by transferring control of the product or service to the customer. A performance obligation is considered transferred when the customer obtains control of the product or service. Transfer of control is typically evaluated from the customer's perspective. At contract inception, we determine whether we satisfy the performance obligation over time or at a point in time. Revenue is recognized when performance obligations are satisfied.

Our contract payment terms are typically net 30 days. We assess collectability based on a number of factors including collection history and creditworthiness of the customer, and we may mitigate exposures to credit risk by requiring payments in advance. If we determine that collectability related to a contract is not probable, we may not record revenue until collectability becomes probable later.

Our revenues are recorded based on the transaction price excluding amounts collected on behalf of third parties such as sales taxes, which are collected on behalf of and remitted to governmental authorities.

Nature of Products and Services

Certain software licenses are sold either on-premise or through term-based hosting agreements. These hosting arrangements provide customers with the same product functionality and differ mainly in the duration over which the customer benefits from the software. We deliver our software licenses electronically. Electronic delivery occurs when we provide the customer with access to the software and license key via a secure portal. Revenue from on-premise software licenses is generally recognized upfront at the point in time when the software is made available to the customer. Revenue from term-based hosted licenses are recognized ratably over the term of the agreement.

Our contracts with customers for on-premise and hosted software licenses include maintenance services and may also include training and/or professional services. Maintenance services agreements consist of fees for providing software updates on an if and when available basis and for providing technical support for software products for a specified term. We believe that our software updates and technical support each have the same pattern of transfer to the customer and are substantially the same. Therefore, we consider these updates and technical support to be a single distinct performance obligation. Revenues allocated to maintenance services are recognized ratably over the term of the agreement. Revenues related to training services are billed on a fixed fee basis and are recognized as the services are delivered. Payments received in advance of services performed are deferred and recognized when the related services are performed. Revenues related to professional services are recognized as the services are performed.

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, are considered to be one performance obligation. The revenue from the sale of these products along with other products and services we provide requires an allocation of transaction price based on the stand-alone selling price of each component.

The Company also offers hosting services bundled with events services. The Company recognizes events revenue when the event takes place and recognizes the hosting revenue over the term of the hosting agreement.

Judgments and Estimates

Our contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately from one another sometimes requires judgment.

Judgment is required to determine standalone selling prices ("SSP") for each distinct performance obligation. We typically have more than one SSP for each of our products and services based on customer stratification, which is based on the size of the customer, their geographic region and market segment. We use a cost plus margin approach to determine SSPs for hardware. We use historical sales data to determine SSPs for perpetual software licenses. For both on-premise and term-hosted agreements, events services, training and professional services, SSPs are generally observable using internally developed pricing calculators and/or price sheets. For maintenance services, SSPs are generally observable using historical renewal data.

Concentration of Credit Risk and Other Risks and Uncertainties

As of September 30, 2020, of the $7.6 million in cash and cash equivalents, $5.3 million is deposited with 2 major U.S. 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. The remaining $2.3 million of cash and cash equivalents is held by our foreign subsidiaries in financial institutions in Japan and the Netherlands and held in their local currency. The cash held in foreign financial institutions is not guaranteed. If the funds held by our foreign subsidiaries were needed for our operations in the United States, the repatriation of some of these funds to the United States could require payment of additional U.S. taxes.

The Company's wholly-owned subsidiaries operate in Japan and the Netherlands, and utilize the Japanese Yen and Euro, respectively, as their functional currency. Assets and liabilities of the Company's foreign operations are translated into US dollars at period end exchange rates whiles revenues and expenses are translated using average rates for the period. Gains and losses from the translation are deferred and included in accumulated other comprehensive loss on the consolidated statements of operations.

During fiscal 2020, the Company recorded an aggregate transaction loss of $36 thousand compared to an aggregate loss of $157 thousand during fiscal 2019. The aggregate transaction gain or loss is included in the other expense line of the consolidated statements of operations.

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 and financing receivables was $236 thousand at September 30, 2020 and $661 thousand at September 30, 2019.

Currently the majority 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, 2020 and 2019, this supplier represented 33% and 31%, respectively, of total accounts payable. We also license technology 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.

Financing Receivables

Financing receivables consist of customer receivables resulting from the sale of the Company's products and services, primarily software and long-term customer support contracts, and are presented net of allowance for losses. The Company has a single portfolio consisting of fixed-term receivables, which is further segregated into two classes based on type of product and lease.

Amounts receivable of $526 thousand at September 30, 2019 primarily represent sales of perpetual software licenses to a single international distributor on invoices outstanding for product delivered from March 2016 through June 2017.

The Company generally determines its allowance for losses on financing receivables at the customer class level by considering a number of factors, including the length of time financing receivable are past due, historical and anticipated experience, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. The Company writes-off financing receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for financing receivable losses. Interest is not accrued on past due receivables. There was an allowance of $526 thousand at September 30, 2019.

During fiscal year 2020, it was determined that the financing receivable would not be collected. Therefore, both the financing receivable of $526 thousand and the corresponding reserve of $526 thousand were written off.

Investment in Sales-Type Lease

The Company has entered into sales-type lease arrangements with certain customers, consisting of recorders leased with terms ranging from 3-5 years.

Investment in sales-type leases consisted of the following (in thousands) as of September 30, 2020:

Investment in sales-type lease, gross:		
2021	$	276
2022		76
Gross investment in sales-type lease		352
Less: Unearned income		(1)
Total investment in sales-type lease	$	351
Current portion of total investment in sales-type lease	$	275
Long-term portion of total investment in sales-type lease		76
	$	351

Inventory

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 net realizable value, with cost determined on a first-in, first-out basis.

Inventory consists of the following (in thousands):

	September 30, 2020	September 30, 2019
Raw materials and supplies	$ 267	$ 163
Finished goods	1,022	395
Less: Obsolescence reserve	(122)	—
Inventories	$ 1,167	$ 558

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.

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 (In Years)
Leasehold improvements	5 to 15
Computer equipment	1.5 to 5
Furniture and fixtures	3 to 15

Depreciation expense is not included in cost of good sold.

Impairment of Long-Lived Assets

Long-lived assets 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. Key assumptions utilized in the analysis of undiscounted cash flows for each asset or asset group being tested included 1) whether cash flows were attributable solely to the asset or group, or to an entire reporting unit; and 2) the useful lives of the asset or asset group. Forecasts used in the analysis were also consistent with those used in determining fair value of reporting units during goodwill impairment testing.

Asset Retirement Obligation

An asset retirement obligation ("ARO") associated with the retirement of a tangible long-lived asset is recognized as a liability in the period in which it is incurred or becomes determinable, with an associated increase in the carrying amount of the related long-term asset. The cost of the tangible asset, including the initially recognized asset retirement cost, is depreciated over the useful life of the asset. As of September 30, 2020, the Company has recorded a liability of $134 thousand for retirement obligations associated with returning the MSKK leased property to the respective lessors upon the termination of the lease arrangement.

A summary of the changes in the ARO is included in the table below (amounts in thousands):

Asset retirement obligation at September 30, 2018	$ 121
Accretion expense	2
Foreign currency changes	6

Asset retirement obligation at September 30, 2019		129
Accretion expense		2
Foreign currency changes		3
Asset retirement obligation at September 30, 2020	$	134

Comprehensive Loss

Comprehensive loss includes disclosure of financial information that historically has not been recognized in the calculation of net income. Our comprehensive loss encompasses net loss and foreign currency translation adjustments. 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 stockholders' equity (deficit) as an element of accumulated other comprehensive loss.

Advertising Expense

Advertising costs included in selling and marketing, are expensed when the advertising first takes place. Advertising expense was $395 thousand and $444 thousand for years ended September 30, 2020 and 2019, respectively.

Research and Development Costs

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

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. We do not provide for U.S. income taxes on the undistributed earnings of our foreign subsidiaries, which we consider to be permanently invested outside of the U.S.

We make judgments regarding the realizability of our deferred tax assets. The balance sheet carrying value of our net deferred tax assets is based on whether we believe that it is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets after consideration of all available evidence. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. Generally, cumulative losses in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed.

As of September 30, 2020 and 2019, valuation allowances have been established for all U.S. and for certain foreign deferred tax assets which we believe do not meet the "more likely than not" criteria for recognition.

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

In determining the fair value of financial assets and liabilities, the Company currently utilizes market data or other assumptions that it believes market participants would use in pricing the asset or liability in the principal or most advantageous market, and adjusts for non-performance and/or other risk associated with the Company as well as counterparties, as appropriate. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1 Inputs: Unadjusted quoted prices which are available in active markets for identical assets or liabilities accessible to the Company at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The hierarchy gives the highest priority to Level 1, as this level provides the most reliable measure of fair value, while giving the lowest priority to Level 3.

Financial Liabilities Measured at Fair Value on a Recurring Basis

The fair value of the bifurcated conversion feature represented by the warrant derivative liability associated with the PFG debt is measured at fair value on a recurring basis based on a Black Scholes option pricing model with assumptions for stock price, exercise price, volatility, expected term, risk free interest rate and dividend yield similar to those described for share-based compensation which were generally observable (Level 2).

Financial liabilities measured at fair value on a recurring basis are summarized below (in thousands):

September 30, 2020	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Derivative liability	$ —	$ 66	$ —	$ 66

September 30, 2019	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Derivative liability	$ —	$ 9	$ —	$ 9

The gain or loss related to the fair value remeasurement on the derivative liability is included in the other income (expense) line on the Consolidated Statements of Operations.

Financial Liabilities Measured at Fair Value on a Nonrecurring Basis

The initial fair values of PFG debt and warrant debt (see Note 3) were based on the present value of expected future cash flows and assumptions about current interest rates and the creditworthiness of the Company (Level 3).

The Burish warrant was measured at fair value using a Black Scholes model and the remaining fair value was allocated to the related Burish note purchase agreement (see Note 3) which management believes materially approximated the fair value based on calculating the present value of expected future cash flows (Level 3). The non-recurring fair value measurements were performed as of the date of issuance of the note purchase agreement and warrant. The discount was being amortized over the life of the related debt until the May 2020 Burish debt to equity conversion.

Financial Instruments Not Measured at Fair Value

The Company's other financial instruments consist primarily of cash and cash equivalents, accounts receivable, investment in sales-type lease, financing receivables, accounts payable and debt instruments and capital lease obligations. The book values of cash and cash equivalents, accounts receivable, investment in sales-type lease, and accounts payable are considered to be representative of their respective fair values due their short term nature. The carrying value of capital lease obligations and debt including the current portion, approximates fair market value as the variable and fixed rate approximates the current market rate of interest available to the Company.

Legal Contingencies

When legal proceedings are brought or claims are made against the Company and the outcome is uncertain, we are required to determine whether it is probable that an asset has been impaired or a liability has been incurred. If such impairment or liability is probable, and the amount of loss can be reasonably estimated, the loss must be charged to earnings.

No legal contingencies were recorded for either of the years ended September 30, 2020 or 2019.

Stock-Based Compensation

The Company uses a lattice valuation model to account for all employee stock options granted. The lattice valuation model is a more flexible analysis to value options because of its ability to incorporate inputs that change over time, such as actual exercise behavior of option holders. The Company uses historical data to estimate the option exercise and employee departure behavior in the lattice valuation model. Expected volatility is based on historical volatility of the Company's stock. The Company considers all employees to have similar exercise behavior and therefore has not identified separate homogeneous 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 expected exercise factor and forfeiture rates are calculated using historical exercise and forfeiture activity for the previous three years.

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

	Years Ending September 30,	
	2020	**2019**
Expected life (years)	4.5 - 4.8	4.3 - 4.5
Risk-free interest rate	0.24% - 1.63%	1.43% - 2.93%
Expected volatility	72.40% - 82.38%	60.19% - 70.63%
Expected forfeiture rate	12.76% - 15.38%	13.51% - 14.79%
Expected exercise factor	1.2	1.2
Expected dividend yield	— %	— %

Preferred Stock and Dividends

The Company considered relevant guidance when accounting for the issuance of preferred stock, and determined that the preferred shares met the criteria for equity classification. Dividends accrued on preferred shares will be shown as a reduction to net income (or an increase in net loss) for purposes of calculating earnings per common share. See Note 5 - Stockholders' Equity (Deficit) for further details.

Per Share Computation

Basic earnings (loss) 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) attributable to common stockholders. The following table sets forth the computation of basic and diluted weighted average shares used in the earnings per share calculations:

	Years Ending September 30,	
	2020	**2019**
Denominator for basic earnings (loss) per share -weighted average common shares	7,216,135	5,833,301
Effect of dilutive options and warrants (treasury method)	—	—
Denominator for diluted earnings (loss) per share -adjusted weighted average common shares	7,216,135	5,833,301
Options and warrants outstanding during each year, but not included in the computation of diluted earnings (loss) per share because they are antidilutive	2,006,073	2,024,589

Liquidity

At September 30, 2020 approximately $2.3 million of cash and cash equivalents was held by the Company's foreign subsidiaries.

The Company believes its cash position plus available resources is adequate to accomplish its business plan through at least the next twelve months. We will likely evaluate operating and capital leases opportunities to finance equipment purchases in the future. We may also seek additional equity financing, but there are no assurances that these will be on terms acceptable to the Company.

Restructuring and exit activities

The determination of when the Company accrues for involuntary termination benefits under restructuring plans depends on whether the termination benefits are provided under an on-going benefit arrangement or under a one-time benefit arrangement. The Company accounts for on-going benefit arrangements, such as those documented by employment agreements, in accordance with Accounting Standards Codification 712 ("ASC 712") *Nonretirement Postemployment Benefits.* Under ASC 712, liabilities for postemployment benefits are recorded at the time the obligations are probable of being incurred and can be reasonably estimated. The Company accounts for one-time employment benefit arrangements in accordance with ASC 420 *Exit or Disposal Cost Obligations.* When applicable, the Company records such costs into operating expense.

During the year ended September 30, 2020, the Company expensed involuntary termination benefits of $705 thousand under ASC 712, compared to $1.0 million in the same period last year.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", ("ASU 2019-12"). The amendments in this ASU affect entities within the scope of Topic 740. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption of the amendments is permitted, including adoption in any interim period for public entities for periods for which financial statements have not yet been issued. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. An entity that elects early adoption much adopt all the amendments in the same period. The Company is currently evaluating the guidance and its impact to the financial statements.

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, which are not discussed above, are not expected to have a material impact on the Company's financial statements upon adoption.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", ("ASU 2016-02") as well as several other related updates which were codified as ASC 842. On October 1, 2019, we adopted this update using the modified retrospective method through a cumulative-effect adjustment. The reported results for the fiscal year ended September 30, 2020 reflect the application of Topic 842, while the comparative information has not been restated and continues to be reported under the related lease accounting standards in effect for those periods. The adoption of this update represents a change in accounting principle and resulted in the recognition of right-of-use assets and lease liabilities of $2.5 million on October 1, 2019. We elected the package of practical expedients, which permits us to leverage our prior conclusions about lease identification, lease classification and initial direct costs incurred. We also elected the practical expedient to combine lease and non-lease components when determining the value of right-of-use assets and lease liabilities. The primary effect of adopting this update relates to the recognition of our operating leases on our consolidated balance sheets and providing additional disclosures about our leasing activities. Leases previously designated as capital leases are now identified as finance leases and continue to be reported on the consolidated balance sheets. Leases previously identified as sales-type leases, where the Company is a lessor, continue to be reported on the consolidated balance sheets. Refer to Note 2 - Commitments for additional disclosures related to our leasing activities.

In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting", ("ASU 2018-07"). The standard addresses aspects of the accounting for nonemployee share-based payment transactions. The amendments in ASU 2018-07 are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The adoption of ASU 2018-07 did not have a material impact on the total non-cash expense associated with nonemployee stock option grants issued during fiscal year 2020.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurements", ("ASU 2018-13"). ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted, and the adoption of ASU 2018-13 did not have a material impact on the Company's consolidated financial statements.

2. Commitments

Leases

The Company has operating leases for corporate office space with various expiration dates. Our leases have remaining lease terms of up to three years, some of which include escalation clauses, renewal options for up to twelve years or termination options within one year.

We determine if an arrangement is a lease upon contract inception. The Company has both operating and finance leases. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments according to the arrangement.

A contract contains a lease if the contract conveys the right to control the use of the identified property, plant or equipment for a period of time in exchange for consideration. At commencement, contracts containing a lease are further evaluated for classification as an operating or finance lease where the Company is a lessee, or as an operating, sales-type or direct financing lease where the Company is a lessor, based on their terms.

Lease right-of-use assets and lease liabilities are recognized as of the commencement date based on the present value of the lease payments over the lease term. The lease right-of use asset is reduced for tenant incentives and includes any initial direct costs incurred. We use the implicit rate when it is readily determinable. Otherwise, the present value of future minimum lease payments is determined using the Company's incremental borrowing rate. The incremental borrowing rate is based on the interest rate of the Company's most recent borrowing.

The lease term we use for the valuation of our right-of-use assets and lease liabilities may include options to extend or terminate the lease when it is reasonably certain that we will exercise those options. Lease expense is recognized on a straight-line basis over the expected lease term for operating leases. Amortization expense of the right-of-use asset for finance leases is recognized on a straight-line basis over the lease term and interest expense for finance leases is recognized based on the incremental interest rate.

Right-of-use assets and lease liabilities are recognized for our leases. Right-of-use assets under finance leases are included in property and equipment on the consolidated balance sheets and have a net carrying value of $191 thousand at September 30, 2020.

We have operating lease arrangements with lease and non-lease components. The non-lease components in our arrangements are not significant when compared to the lease components. For all operating leases, we account for the lease and non-lease components as a single component.

As of September 30, 2020, future maturities of operating and finance lease liabilities for the fiscal years ended September 30 are as follows (in thousands):

	Operating Leases	Finance Leases
2021	$ 1,531	$ 129
2022	464	79
2023	100	8
2024	106	5
2025	34	—
Thereafter	70	—
Total	2,305	221
Less: imputed interest	(215)	(13)
Total	$ 2,090	$ 208

Effect of Adopting ASC 842

Opening Balance Sheet Adjustment on October 1, 2019

As a result of applying the modified retrospective method to adopt ASC 842, the following amounts on our consolidated balance sheet were adjusted as of October 1, 2019 to reflect the cumulative effect adjustment to the opening balance sheet (in thousands):

	As reported September 30, 2019	ASC 842 adoption adjustments	Adjusted October 1, 2019
Right-of-use assets under operating leases	—	2,533	2,533
Total assets	$ **15,180**	$ **2,533**	$ **17,713**
Current portion of operating lease obligations	$ —	$ 1,314	$ 1,314
Accrued liabilities	2,216	(44)	2,172
Total current liabilities	13,831	1,270	15,101
Long-term portion of operating lease obligations	—	1,263	1,263
Total liabilities	$ **21,433**	$ **2,533**	$ **23,966**

Supplemental information related to leases is as follows (in thousands, except lease term and discount rate):

	Fiscal Year Ended September 30, 2020
Operating lease costs	$ 1,383
Variable operating lease costs	37
Total operating lease cost	$ 1,420
Finance lease cost:	
Amortization of right-of-use assets	$ 186
Interest on lease liabilities	21
Total finance lease cost	$ 207

Variable lease costs include operating costs for U.S. office lease based on square footage and Consumer Price Index ("CPI") rent escalation and related VAT for office lease in the Netherlands.

Supplemental cash flow information related to operating and finance leases were as follows (in thousands):

	Fiscal Year Ended September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows for operating leases	$ 1,387
Operating cash outflows for finance leases	21
Financing cash outflows for finance leases	201

Other information related to leases was as follows:

	September 30, 2020
Weighted average remaining lease term (in years)	
Operating leases	2.3
Finance leases	1.9
Weighted average discount rate	

Operating leases	9.11%
Finance leases	8.65%

Other Commitments

The Company enters into unconditional purchase commitments on a regular basis for the supply of Mediasite product for hardware inventory, as well as services to support our hosting environment, which are not recorded on the Company's Consolidated Balance Sheet. At September 30, 2020, the Company has an obligation to purchase $543 thousand of Mediasite product and $295 thousand of services during fiscal year 2021, and $414 thousand in services during fiscal 2022 and 2023.

3. Credit Arrangements

Partners for Growth V, L.P.

On May 11, 2018, Sonic Foundry, Inc., entered into a Loan and Security Agreement (the "2018 Loan and Security Agreement") with Partners for Growth V, L.P. ("PFG V").
The 2018 Loan and Security Agreement provides for a Term Loan ("Term Loan") in the amount of $2,500,000, which was disbursed in two (2) Tranches as follows: Tranche 1 was disbursed on May 14, 2018 in the amount of $2,000,000; and Tranche 2 in the amount of $500,000, was disbursed on November 8, 2018. Each tranche of the Term Loan bears interest at 10.75% per annum. Tranche 1 of the Term Loan was payable interest only until November 30, 2018. Thereafter, principal is due in 30 equal monthly principal installments, plus accrued interest, beginning December 1, 2018 and continuing until May 1, 2021, when the principal balance is to be paid in full. Tranche 2 of the Term Loan is payable using the same repayment schedule as Tranche 1. Upon maturity, Sonic Foundry is required to pay PFG V a cash fee of $150,000. The principal of the Term Loan may be prepaid at any time, provided that Sonic Foundry pays to PFG V a prepayment fee equal to 1% of the principal amount prepaid, if the prepayment occurs in the first year from disbursement of Tranche 1. The Term Loan is collateralized by substantially all the Company's assets, including intellectual property.

Coincident with execution of the 2018 Loan and Security Agreement, the Company entered into a Warrant Agreement ("Warrant") with PFG V. Pursuant to the terms of the Warrant, the Company issued to PFG V a warrant to purchase up to 66,000 shares of common stock of the Company at an exercise price of $2.57 per share, subject to certain adjustments. Pursuant to the Warrant, PFG V is also entitled, under certain conditions, to require the Company to exchange the Warrant for the sum of $250,000. All warrants issued in connection with PFG V expire on May 11, 2023.

At September 30, 2020 and 2019, the estimated fair value of the derivative liability associated with the warrants issued in connection with the 2018 Loan and Security Agreement, was $66 thousand and $9 thousand, respectively. Included in other expense, the remeasurement loss on the derivative liability was $57 thousand for fiscal year 2020 compared to a remeasurement gain of $8 during fiscal 2019. The primary reason for the year over year change is due to an increase in stock price during fiscal 2020.

The proceeds from the 2018 Loan and Security Agreement were allocated between the PFG V Debt and the Warrant Debt (inclusive of its conversion feature) based on their relative fair value on the date of issuance, which resulted in original carrying values of $2.3 million and $156 thousand, respectively. The warrant debt is treated together as a debt discount on the PFG V Debt and is accreted to interest expense under the effective interest method over the three-year term of the PFG V Debt and the five-year term of the Warrant Debt. During fiscal 2020, the Company recorded accretion of discount expense associated with the warrants issued with the PFG V loan of $23 thousand compared to $20 thousand in fiscal 2019, as well as $56 thousand related to amortization of the debt discount in fiscal 2020 compared to $54 thousand in fiscal 2019. At September 30, 2020, the carrying values of the PFG V Debt and the Warrant Debt (inclusive of its conversion feature) were $794 thousand and $172 thousand, respectively. At September 30, 2019, the carrying values of the PFG V Debt and the Warrant Debt (inclusive of its conversion feature) were $1.7 million and $149 thousand, respectively. In addition, the Company agreed to pay PFG V a cash fee of up to $150,000 payable upon maturity (the "back-end fee"), which will be earned ratably over the three year term of the PFG V loan. During fiscal 2020, the Company recorded interest expense of $50 thousand associated with recognition of the back-end fee compared to $50 thousand in fiscal 2019.

The non-cash effective interest expense is calculated on the net balance of the PFG V Debt, Warrant Debt, and related loan origination fees, on a monthly basis. During fiscal 2020, we recorded $22 thousand of non-cash interest gain related to the effective interest rate on the PFG V loan compared to $77 thousand interest expense in fiscal 2019.

On March 11, 2019, Sonic Foundry, Inc. entered into a Consent, Waiver & Modification to the 2018 Loan and Security Agreement dated May 11, 2018 (the "Modification") with Partners for Growth V, L.P. ("PFG"). Under the Modification: PFG waived the Company's default on the Minimum EBITDA financial covenant for the quarterly reporting period ending December 31, 2018;

modified the existing financial covenants to be as follows: (i) Minimum Coverage Ratio (as defined), which requires, as of the last day of each month on or after the closing date, to be equal to or greater than (x) 0.7: 1.00 for the December through May calendar months, and (y) 0.9:1.00 for the June through November calendar months; (ii) Minimum Qualifying Revenue (as defined), which requires, as of the last day of each calendar month, on or after December 1, 2018, on a trailing twelve-month basis, to be no less than $13,000,000; and modified the negative covenants to be as follows: the Company (x) shall not cause or permit (a) Japanese subsidiary indebtedness under its revolving line of credit facility to exceed at any time $1,000,000 outstanding, or (b) aggregate subsidiary indebtedness to exceed $1,200,000 at any time. At September 30, 2020, the Company was in compliance with all covenants per in the 2018 Loan and Security Agreement, as modified.

Under the Modification, the Company was required to draw the next tranche of $1,000,000 in proceeds on the Note Purchase Agreement (detailed below) on or before March 31, 2019 as well as the final tranche of $1,000,000 in proceeds on or before April 30, 2019. The Company met this requirement as all tranches were fully drawn prior to April 30, 2019.

The existing terms of the PFG loan in terms of amortization, interest rate, payment schedule and maturity date were unchanged.

At September 30, 2020, a gross balance of $667 thousand was outstanding on the term debt with PFG V with an effective interest rate of sixteen-and-six-tenths percent (16.60%). At September 30, 2019, a gross balance of $1.7 million was outstanding with PFG V.

Initial Notes of the February 28, 2019 Burish Note Purchase Agreement

On January 4, 2019, Sonic Foundry, Inc. and Mr. Mark Burish ("Mr. Burish") entered into a Promissory Note (the "Promissory Note") pursuant to which Mr. Burish purchased a 9.25% Unsecured Promissory Note for $1,000,000 in cash. Interest accrued and outstanding principal on the Promissory Note was due and payable on January 4, 2020. The Promissory Note may be prepaid at any time without penalty. The Promissory Note was later included in the Note Purchase Agreement, dated February 28, 2019, as detailed below.

On January 31, 2019, Sonic Foundry, Inc. and Mr. Burish entered into a Promissory Note (the "January 31, 2019 Promissory Note") pursuant to which Mr. Burish purchased a 9.25% Unsecured Promissory Note for $1,000,000 in cash. Interest accrued and outstanding principal on the January 31, 2019 Promissory Note was due and payable on January 31, 2020. The January 31, 2019 Promissory Note may be prepaid any time without penalty. The note may be paid by the Company by issuing common stock to Mr. Burish, with each share valued at $1.30 per share. The January 31, 2019 Promissory Note was later included in the Note Purchase Agreement, dated February 28, 2019, as detailed below.

On February 14, 2019, Sonic Foundry, Inc. and Mr. Burish entered into a Promissory Note (the "February 14, 2019 Promissory Note") pursuant to which Mr. Burish purchased a 9.25% Unsecured Promissory Note for $1,000,000 in cash. Interest accrued and outstanding principal on the February 14, 2019 Promissory Note was due and payable on February 14, 2020. The February 14, 2019 Promissory Note may be prepaid any time without penalty. The note may be paid by the Company by issuing common stock to Mr. Burish with each share valued at $1.30 per share. The February 14, 2019 Promissory Note was later included in the Note Purchase Agreement, dated February 28, 2019, as detailed below.

Mr. Burish beneficially owns more than 5% of the Company's common stock and also serves as the Chairman of the Board of Directors.

February 28, 2019 Note Purchase Agreement

On February 28, 2019, Sonic Foundry, Inc. entered into a Note Purchase Agreement (the "Note Purchase Agreement") with Mr. Burish.

The Note Purchase Agreement provides for subordinated secured promissory notes (the "Subordinated Promissory Notes") in an aggregate original principal amount of up to $5,000,000. Mr. Burish will acquire from the Company (a) on the initial closing date, the notes in an aggregate principal amount of $3,000,000 (the "Initial Notes") and (b) two additional tranches, each in the amount of $1,000,000 and payable at any time prior to the first anniversary of the Agreement (the "Additional Notes" and together with the Initial Notes, collectively, the "Purchase Price"). The Initial Notes were previously disbursed in January and February of 2019, as detailed above (the Promissory Note, the January 31st, 2019 Promissory Note, and the February 14, 2019 Promissory Note, collectively referred to as the "Initial Notes"). The fourth tranche was disbursed on March 13, 2019 and the fifth and final tranche was disbursed on April 4, 2019.

The Subordinated Promissory Notes accrued interest at the variable per annum rate equal to the Prime Rate (as defined) plus four percent (4.00%). The outstanding principal balance of the Subordinated Promissory Notes, plus all unpaid accrued interest, plus all outstanding and unpaid obligations, was set to mature on February 28, 2024 (the "Maturity Date"). Principal installments of $100,000 were to begin monthly on August 31, 2020 and continue through the Maturity Date. The Note Purchase Agreement dated February 28, 2019 was subordinated to the existing PFG loan.

At each anniversary of the Closing, an administration fee will be payable to Mr. Burish equal to 0.5% of the purchase price less principal payments made.

The proceeds from the Note Purchase Agreement were allocated between the Subordinated Promissory Notes and the Warrant debt based on their relative fair value on the date of issuance. The warrant debt was treated together as a debt discount on the Subordinated Notes Payable and was accreted to interest expense under the effective interest rate method over the five-year term of the Subordinated Notes Payable. During fiscal 2020, the Company recorded accretion of discount expense associated with the Subordinated Promissory Notes of $87 thousand compared to $79 thousand in fiscal 2019.

May 13, 2020 Debt Conversion Agreement

On May 13, 2020, the Company entered into a debt conversion agreement with Mr. Burish to convert all outstanding debt owed to Mr. Burish into common stock at a conversion price of $5.00 per share. The net carrying value of $5.0 million, including principal and accrued interest of $5.6 million less debt discount and loan origination fees of $596 thousand, was converted into 1,114,723 shares of common stock. The debt conversion was treated as a debt extinguishment and resulted in a net loss of $26 thousand.

February 28, 2019 Warrant

Coincident with execution of the Note Purchase Agreement, the Company entered into a Warrant Agreement ("Warrant") with Mr. Burish. Pursuant to the terms of the Warrant, the Company issued to Mr. Burish a warrant to purchase up to 728,155 shares of common stock of the Company at an exercise price of $1.18 per share, subject to certain adjustments.

On April 25, 2019, Mr. Burish exercised his warrant to purchase 728,155 shares of common stock of the Company at an exercise price of $1.18 per share. A special committee of disinterested and independent directors approved the issuance of the Subordinated Promissory Notes and the Warrant.

Paycheck Protection Program (PPP) Loan Dated April 20, 2020

Following the approval of the Board of Directors, the Company and First Business Bank entered into a $2.3 million Promissory Note (the "Promissory Note") under the Paycheck Protection Program (PPP) contained within the new Coronavirus Aid, Relief, and Economic Security (CARES) Act. The PPP loan has a term of two years for those companies receiving loan proceeds prior to June 5, 2020, is unsecured, and is guaranteed by the U.S. Small Business Administration ("SBA"). The loan carries a fixed interest rate of 1% per annum. Under the terms of the CARES Act, the Company will be eligible for and intends to apply for forgiveness of all loan proceeds used for payroll costs, rent, utilities, and other qualifying expenses during the eight-week or twenty-four week period ("covered period") following receipt of the loan, provided the Company maintains its employment and compensation within certain parameters during such period, and provided further that not more than 40% of the amount forgiven can be attributable to non-payroll costs. The Company must apply for forgiveness within 10 months from the end of the covered period. First Business Bank will then have 60 days to review the application and submit it to the SBA, and the SBA will have 90 days from receipt of the application to review and render a decision back to the lender. If the borrower does not apply for loan forgiveness within the 10 month time frame, or if the SBA determines that the loan is not eligible for forgiveness (in whole or in part), the PPP loan is no longer deferred and the borrower must begin paying principal and interest. If this occurs, the lender must notify the borrower of the amount and the date the first payment is due. As of September 30, 2020, the Company has $193 thousand in short-term notes payable as well as $2.1 million in long-term notes payable. As of September 30, 2020, the Company has accrued $10 thousand of accrued interest. The company intends to apply for full forgiveness before December 31, 2020.

Other Indebtedness

On January 30, 2020, Mediasite K.K. entered into a Term Loan ("Term Loan") with Sumitomo Mitsui Banking Corporation for $460 thousand in cash. The Term loan accrues interest at an annual rate of 1.475%. Beginning in January 2020, principal is due in 12 equal monthly installments, plus accrued interest, continuing through December 30, 2020, when the principal balance will be paid in full.

At September 30, 2020, $118 thousand was outstanding on the term loan with Mitsui Sumitomo Bank.

At September 30, 2020 and September 30, 2019, no balance was outstanding on the line of credit with Mitsui Sumitomo Bank. The credit facility is related to Mediasite K.K., and accrues interest at an annual rate of approximately one-and-one half percent (1.575%). The available line of credit at September 30, 2020 was $474 thousand and matures on March 1, 2021.

On August 20, 2020, Mediasite K.K. and Sumitomo Mitsui Banking Corporation entered into a $379 thousand Promissory Note under an initiative by the Japanese Finance Corporation government institution in response to the Cabinet Decision entitled "Emergency Economic Measures to Cope With COVID-19." Extending financial relief to organizations impacted by COVID-19, the loan has a term of three years and carries a fixed interest rate of 0.46% per annum. Government subsidies provided through the Japanese Finance Corporations will provide interest relief throughout the term of the loan. In addition, the loan agreement includes a three year grace period with principal payments deferred through the end of the loan, which is September 30, 2023. As of September 30, 2020 the full amount of the loan has been included in long-term notes payable.

In the years ended September 30, 2020 and 2019, respectively, no foreign currency gain or loss was realized related to re-measurement of the subordinated notes payable related to the Company's foreign subsidiaries.

The annual principal payments on the outstanding notes payable are as follows:

Fiscal Year (in thousands)		
2021	$	978
2022		1,158
2023		1,344
2024		—
2025		—
Thereafter		—
Total principal payments		3,480
Plus: Discount on notes payable and debt issuance costs		297
Total notes payable, net of discount	$	3,777

4. Balance Sheet

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consists of the following (in thousands):

	September 30,			
		2020		**2019**
Prepaid expenses	$	873	$	855
Prepaid insurance		157		89
Other current assets		35		28
Total	$	1,065	$	972

Prepaid expenses are amounts paid for services covering periods of performance beyond the balance sheet date such as tradeshow fees and service agreements. Prepaid insurance represents fees paid for insurance covering periods beyond the balance sheet date. Other current assets mainly relates to consumption taxes paid by Mediasite K.K. that were refunded in fiscal 2020 and did not recur at the current balance sheet date.

Accrued Liabilities

Accrued liabilities consists of the following (in thousands):

	September 30, 2020	September 30, 2019
Accrued compensation	$ 1,939	$ 1,419
Accrued expenses	289	480
Accrued interest & taxes	316	269
Other accrued liabilities	21	48
Total	$ 2,565	$ 2,216

The Company accrues expenses as they are incurred. Accrued compensation includes wages, vacation, commissions, bonuses, and severance. Accrued expenses is mainly related to professional fees and amounts owed to suppliers. Other accrued liabilities is made up of employee-related expenses.

Prior Year Receivables and Contract Liabilities

Following the adoption of ASC 606 on October 1, 2018, the opening balance for accounts receivable was $7.4 million and total customer contract liabilities were $12.3 million.

5. Stockholders' Equity (Deficit)

Stock Options and Employee Stock Purchase Plan

On March 5, 2009, Stockholders approved adoption of the 2009 Stock Incentive Plan (the “2009 Plan”). The 2009 Plan, beginning October 1, 2009, replaced two former employee stock option plans that terminated coincident with the effectiveness of the 2009 Plan. The Company maintains a directors’ stock option plan under which options may be issued to purchase up to an aggregate of 150,000 shares of common stock. Each non-employee director, who is re-elected or who continues as a member of the board of directors on each annual meeting date and on each subsequent meeting of Stockholders, will be granted options to purchase 2,000 shares of common stock under the directors’ plan, or at other times or amounts at the discretion of the Board of Directors.

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

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 stockholder approved plans at September 30, is as follows:

	Qualified Employee Stock Option Plans	Director Stock Option Plans
Shares available for grant at September 30, 2018	695,759	43,500
Options granted	(218,850)	(10,500)
Options forfeited	536,292	12,000
Shares available for grant at September 30, 2019	1,013,201	45,000
Options granted	(228,750)	—
Options forfeited	127,166	10,500
Shares available for grant at September 30, 2020	911,617	55,500

There are additional non-shareholder approved plans with no shares available for grant at September 30, 2020.

The following table summarizes information with respect to outstanding stock options under all plans:

	Years Ended September 30,			
	2020		2019	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	1,654,429	$ 5.62	2,029,741	$ 7.04
Granted	228,750	1.86	229,350	0.73
Exercised	(37,998)	1.53	—	—
Forfeited	(137,666)	6.82	(604,662)	8.53
Outstanding at end of year	1,707,515	$ 5.09	1,654,429	$ 5.62
Exercisable at end of year	1,367,618		1,297,315	
Weighted average fair value of options granted during the year	$ 0.84		$ 0.28	

The weighted-average remaining contractual life of exercisable shares is 3.6 years.

The options outstanding at September 30, 2020 have been segregated into three ranges for additional disclosure as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding at September 30, 2020	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at September 30, 2020	Weighted Average Exercise Price
$0.66 to $4.88	1,002,039	5.60	$ 2.58	662,142	$ 2.13
5.00 to 9.81	554,516	3.34	7.87	554,516	7.87
$10.00 to $15.00	150,960	2.46	11.30	150,960	11.30
	1,707,515			1,367,618	

As of September 30, 2020, there was $154 thousand of total unrecognized compensation cost related to non-vested stock-based compensation, with total forfeiture adjusted unrecognized compensation costs of $122 thousand. The cost is expected to be recognized over a weighted-average life of 1.7 years. As of September 30, 2019, there was $131 thousand of total unrecognized compensation cost related to non-vested stock-based compensation, with total forfeiture adjusted unrecognized compensation costs of $97 thousand.

A summary of the status of the Company's non-vested shares under all plans at September 30, 2020 and for the year then ended is presented below:

	Options	Weighted Average Grant Date Fair Value
Non-vested options at October 1, 2018	680,720	$ 1.46
Granted	229,350	0.28
Vested	(508,998)	1.46
Forfeited	(43,958)	1.06
Non-vested options at September 30, 2019	357,114	0.77
Granted	228,750	0.84
Vested	(219,966)	1.12
Forfeited	(26,001)	0.54
Non-vested options at September 30, 2020	339,897	$ 0.60

Stock-based compensation recorded in the year ended September 30, 2020 was $158 thousand. Stock-based compensation recorded in the year ended September 30, 2019 was $177 thousand. Cash received from exercises under all stock option plans and warrants for the year ended September 30, 2020and 2019 was $58 thousand and $859 thousand, respectively. There were no tax benefits realized for tax deductions from option exercises for the years ended September 30, 2020 and 2019. 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 200,000 common shares may be issued. All employees who have completed 90 days of employment with the Company on the first day of each offering period 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 6 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 9,440 shares are available to be issued under the plan at September 30, 2020.

There were 16,227 and 22,200 shares purchased by employees during fiscal 2020 and 2019, respectively. The Company recorded stock compensation expense under this plan of $2 thousand and $1 thousand during fiscal 2020 and 2019, respectively. Cash received from issuance of stock under this plan was $17 thousand and $12 thousand during fiscal 2020 and 2019, respectively.

Common Stock Warrants

On April 16, 2018, the Company issued 232,558 shares of common stock to an affiliated party. The shares were issued at a price of $2.15 per share, representing the closing price on April 13, 2018. The affiliated party also received warrants to purchase 232,558 shares of common stock at an exercise price of $2.50 per share, respectively, which expire on April 16, 2025.

On April 25, 2019, Mr. Burish exercised his warrant, described in Note 3 (February 28, 2019 Warrant) to purchase 728,155 shares of common stock of the Company at an exercise price of $1.18 per share.

See Note 10 - Related Party Transactions for more details on the affiliated party.

Preferred stock and dividends

In May 2017, the Company created a new series of preferred stock entitled "9% Cumulative Voting Convertible Preferred Stock, Series A" (the "Preferred Stock, Series A"). As of September 30, 2020 and 2019, an aggregate total of 4,500 shares were authorized, respectively. Holders of the Preferred Stock, Series A will receive monthly dividends at an annual rate of 9%, payable in additional shares of Preferred Stock, Series A. Dividends declared on the preferred stock were earned monthly as additional shares and accounted for as a reduction to paid-in capital since the Company is currently in an accumulated deficit position. Each share of Preferred Stock, Series A was convertible into that number of shares of common stock determined by dividing $4.23 into the liquidation amount.

The Company considered relevant guidance when accounting for the issuance of preferred stock, and determined that the preferred shares meet the criteria for equity classification. Dividends accrued on preferred shares have been shown as a reduction to net income (or an increase in net loss) for purposes of calculating earnings per share

On November 9, 2017, Mr. Burish, a director of the Company who beneficially owns more than 5% of the Company's common stock, purchased $500 thousand of shares of Preferred Stock, Series A, at $762.85 per share. On November 15, 2018, 718 shares of Preferred Stock Series A was automatically converted by the Company into 169,741 shares of common stock.

On May 17, 2019, 2,080 shares of Preferred Stock Series A owned by Mr. Burish were automatically converted by the Company into 491,753 shares of common stock. The amount of shares converted represents all preferred shares issued, including related dividends.

A total of zero shares of Preferred Stock, Series A were issued and outstanding as of September 30, 2020 and 2019, respectively.

6. Income Taxes

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

	Years Ended September 30, 2020	Years Ended September 30, 2019
Current income tax expense U.S.	$ —	$ —
Current income tax expense foreign	97	67
Deferred income tax provision	51	23
Provision for income taxes	$ 148	$ 90

U.S. and foreign components of loss before income taxes were as follows (in thousands):

	Years Ended September 30, 2020	Years Ended September 30, 2019
U.S.	$ (184)	$ (3,576)
Foreign	153	54
Loss before income taxes	$ (31)	$ (3,522)

The reconciliation of income tax expense (benefit) computed at the appropriate country specific rate to income tax benefit is as follows (in thousands):

	Years Ended September 30, 2020	Years Ended September 30, 2019
Income tax benefit at statutory rate	$ (39)	$ (751)
State income tax expense (benefit)	148	(198)
Foreign tax activity	97	67
Permanent differences, net	538	44
Change in valuation allowance	(632)	1,569
Return to provision true-up	—	(1,053)
Other	36	412
Income tax expense	$ 148	$ 90

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

	September 30, 2020	September 30, 2019
Deferred tax assets:		
Net operating loss and other carryforwards	$ 20,069	$ 25,347
Common stock options	958	946
Unearned revenue	446	477
Interest expense limitation	457	262
Other	433	544
Total deferred tax assets	22,363	27,576
Deferred tax liabilities:		
Other	(339)	(97)
Total deferred tax liabilities	(339)	(97)
Net deferred tax asset	22,024	27,479
Valuation allowance	(21,981)	(27,443)
Net deferred tax asset	$ 43	$ 36

The Company has a $43 thousand and $36 thousand deferred tax asset at September 30, 2020 and 2019, respectively, recorded within the prepaid expenses and other current assets and other long-term assets lines on the consolidated balance sheet and is primarily related to net operating losses of MSKK.

At September 30, 2020, the Company had net operating loss carryforwards of approximately $79 million for U.S. Federal and $57 million for state tax purposes. For Federal tax purposes, the carryforwards expire in varying amounts through 2037. For state tax purposes, the carryforwards expire in varying amounts between 2020 and 2039. Utilization of the Company's net operating loss may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization. In addition, the Company had research and development tax credit carryforwards of approximately $165 thousand, which expired in 2020.

The Company maintains an additional paid-in-capital (APIC) pool which represents the excess tax benefits related to share-based compensation that are available to absorb future tax deficiencies. If the amount of future tax deficiencies is greater than the available APIC pool, the Company records the excess as income tax expense in its consolidated statements of income. For fiscal 2020 and fiscal 2019, the Company had a sufficient APIC pool to cover any tax deficiencies recorded and as a result, these deficiencies did not affect its results of operations. At September 30, 2020, the Company has $1.1 million of net operating loss carry forwards for which a benefit would be recorded in APIC when realized.

Earnings of the Company's foreign subsidiaries are generally subject to U.S. taxation upon repatriation to the U.S. and the Company's tax provision reflects the related incremental U.S. tax except for certain foreign subsidiaries whose unremitted earnings are considered to be indefinitely reinvested. No deferred tax liability has been recognized with regard to the remittance of such earnings after MSKK and Sonic Foundry International BV acquisitions were completed. At September 30, 2020, unremitted earnings of $1.2 million for foreign subsidiaries were deemed to be indefinitely reinvested.

Beginning with an acquisition in fiscal year 2002, the Company has amortized goodwill for tax purposes over a 15 year life. Tax amortization is not applicable to the goodwill from the foreign acquisitions that took place during fiscal 2014 since the foreign goodwill is non-deductible for US federal tax purposes.

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, 2020 or September 30, 2019 and has not recognized any interest or penalties in the Consolidated Statements of Operations for either of the years ended September 30, 2020 or 2019.

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

7. Savings Plan

The Company's defined contribution 401(k) savings plan covers substantially all employees meeting certain minimum eligibility requirements. Participating employees can elect to defer a portion of their compensation and contribute it to the plan on a pretax basis. The Company may also match certain amounts and/or provide additional discretionary contributions, as defined. The Company made matching contributions of $428 thousand and $444 thousand during the years ended September 30, 2020 and 2019, respectively. The Company made no additional discretionary contributions during 2020 or 2019.

8. Revenue

Disaggregation of Revenues

The following table summarizes revenues from contracts with customers for the twelve months ended September 30, 2020 and 2019, respectively, (in thousands):

	Fiscal Year Ended September 30, 2020				
	SOFO	SFI	MSKK	Eliminations	Total
Revenue:					
Hardware	$ 5,452	$ 718	$ 759	$ (612)	$ 6,317
Software	3,201	456	704	(566)	3,795
Shipping	218	9	—	—	227
Product and other total	8,871	1,183	1,463	(1,178)	10,339
Support	7,638	603	1,965	(694)	9,512
Hosting	4,934	623	1,375	—	6,932
Events	3,533	121	2,250	—	5,904
Installs and training	1,655	21	390	—	2,066
Services total	17,760	1,368	5,980	(694)	24,414
Total revenue	$ 26,631	$ 2,551	$ 7,443	$ (1,872)	$ 34,753

	Fiscal Year Ended September 30, 2019				
	SOFO	SFI	MSKK	Eliminations	Total
Revenue:					
Hardware	$ 6,710	$ 598	$ 950	$ (808)	$ 7,450
Software	3,316	417	542	(430)	3,845
Shipping	840	5	—	(509)	336
Product and other total	10,866	1,020	1,492	(1,747)	11,631
Support	7,717	672	2,137	(803)	9,723
Hosting	4,258	544	1,649	—	6,451
Events	3,785	167	2,741	—	6,693
Installs and training	258	25	—	—	283
Services total	16,018	1,408	6,527	(803)	23,150
Total revenue	$ 26,884	$ 2,428	$ 8,019	$ (2,550)	$ 34,781

Transaction price allocated to future performance obligations

As of September 30, 2020, the aggregate amount of the transaction price that is allocated to our future performance obligations was approximately $4.1 million in the next three months compared to $4.0 million last year, $10.4 million in the next twelve months compared to $9.6 million last year , and the remaining $1.7 million thereafter compared to $1.8 million last year.

Disclosures related to our contracts with customers

Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to our contracts with customers. We record assets for amounts related to performance obligations that are satisfied but not yet billed and/or collected. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations. These liabilities are classified as current and non-current unearned revenue.

Unearned revenues

Unearned revenues represent our obligation to transfer products or services to our client for which we have received consideration, or an amount of consideration is due, from the client. During the twelve months ended September 30, 2020, revenues recognized related to the amount included in the unearned revenues balance at the beginning of the period was $9.9 million compared to $10.3 million at September 30, 2019.

Assets recognized from the costs to obtain our contracts with customers

We recognize an asset for the incremental costs of obtaining a contract with a customer. We amortize these deferred costs proportionate with related revenues over the period of the contract. During the twelve months ended September 30, 2020, amortization expense recognized related to the amount included in the capitalized commissions at the beginning of the period was $491 thousand compared to $593 thousand at September 30, 2019.

9. Related-Party Transactions

The Company incurred fees of $424 thousand and $316 thousand during the years ended September 30, 2020 and 2019, 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 $36 thousand and $30 thousand at September 30, 2020 and 2019, respectively.

Coincident with a retirement and transition agreement, the Company agreed to cancel a loan outstanding with an executive and the remaining balance of $26 thousand was fully written off as of September 30, 2020.

On May 13, 2020, the Company entered into a debt conversion agreement with Mr. Burish to convert all outstanding debt owed to Mr. Burish into common stock at a conversion price of $5.00 per share. The total debt amount, including accrued interest and fees, of $5.6 million was converted into 1,114,723 shares of common stock. The transaction was recommended by the Company's Special Committee of Independent and Disinterested Directors and unanimously approved by all disinterested directors of the Company. Silverwood Partners, the Special Committee's financial advisor, issued a fairness opinion in connection with the transaction.

Mr. Burish beneficially owns more than 5% of the Company’s common stock. Mr. Burish also serves as the Chairman of the Board of Directors. An affiliated party beneficially owns more than 5% of the Company's common stock. All transactions with Mr. Burish and with the affiliated party were approved by a Special Committee of Disinterested and Independent Directors.

10. Segment Information

We have determined that in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 280-10, *Segment Reporting*, we operate in three operating segments, however these segments meet the criteria for aggregation for reporting purposes as one reporting segment as of September 30, 2020 and 2019.

The following summarizes revenue and long-lived assets by geographic region (in thousands):

	Revenues Years Ended September 30,		Long-Lived Assets September 30,	
	2020	**2019**	**2020**	**2019**
United States	$ 18,714	$ 19,680	$ 3,412	$ 1,778
Europe and Middle East	7,245	5,718	1,447	475
Asia	7,714	7,822	1,449	1,307
Other	1,080	1,561	—	—
Total	$ 34,753	$ 34,781	$ 6,308	$ 3,560

11. 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, 2020, 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.

12. Impacts of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. While we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration, severity and impact of the pandemic and containment measures, our compliance with these measures has impacted our day-to-day operations and could disrupt our business and operations, as well as those of our key business partners, vendors and other counterparties for an indefinite period of time. To support the health and well-being of our employees, business partners and communities, a vast majority of our employees have been working remotely since mid-March 2020 and continue to do so for the foreseeable future.

COVID-19 has had negative impacts on our operations and the future impacts of the pandemic and any corresponding economic results are largely unknown and rapidly evolving. Beginning in March and continuing through our fiscal year and beyond, the events portion of our business was and continues to be significantly impacted by cancellations and/or postponements due to social distancing protocols enacted to stem the spread of the virus. In addition, the closure of educational institutions globally and the negative financial impact on their funding, could impact our sales in the upcoming quarters. While the virus has increased awareness of the need for distance learning tools and the adoption of video as a necessary communication medium, it is impossible for us to predict with confidence the long-term financial impact on our business including results of operations and liquidity.

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 at September 30, 2020, 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 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 effective as of September 30, 2020.

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

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

Management's Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *2013 Internal Control- Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "2013 COSO Framework") on May 14, 2013. The 2013 COSO Framework outlines the 17 underlying principles and the following fundamental components of a company's internal control: (i) control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. The 2013 Framework was adopted in the fiscal year ended September 30, 2015.

Based on evaluations at September 30, 2020, 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 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 effective as of September 30, 2020.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm, as allowed by the SEC.

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 2020 and 2021 Annual Meeting of Stockholders.

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 and whether or not the audit committee has a charter. 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 Kelsy L. Boyd, 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 2019 and 2020 Audit Fee Summary" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

NUMBER	DESCRIPTION
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	Articles Supplementary to the Company Charter of the Registrant, as relates to Series A Preferred Stock, dated May 30, 2017, filed as Exhibit 5.03 to the 8-K filed on June 5, 2017, and hereby incorporated by reference.
3.3	Articles Supplementary to the Company Charter of the Registrant, as relates to Series A Preferred Stock, dated November 6, 2017, filed as Exhibit 3.1 to the Form 8-K filed on November 21, 2017, and hereby incorporated by reference.
3.4	Amended and Restated By-Laws of the Registrant, filed as Exhibit No. 3.1 to the Form 8-K filed on January 25, 2018, and hereby incorporated by reference.
3.5	Articles Supplementary to the Company Charter of the Registrant, as relates to Series A Preferred Stock, filed as Exhibit 3.1 to the Form 8-K filed on May 23, 2018, and hereby incorporated by reference.
10.1*	Registrant’s 2008 Non-Employee Directors’ Stock Option Plan, as amended, filed as Exhibit 3 to the Form 14A filed on January 26, 2017, and hereby incorporated by reference.
10.2*	Registrant’s 2008 Employee Stock Purchase Plan, as amended, filed as Exhibit 1 to the Form 14A filed on January 26, 2017, and hereby incorporated by reference.
10.3*	Registrant’s 2009 Stock Incentive Plan, as amended, filed as Exhibit 2 to the Form 14A filed on January 26, 2017, and hereby incorporated by reference.
10.4	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.
10.5*	Employment Agreement dated March 21, 2014 between Sonic Foundry, Inc. and Robert M. Lipps, filed as Exhibit 10.1 to the Form 8-K filed on March 26, 2014, and hereby incorporated by reference.
10.6	Forms of Subscription Agreements, Lock-Up Agreements and Warrant Agreements dated December 22, 2014 among Sonic Foundry, Inc. and Mark Burish, and Sonic Foundry, Inc. and Andrew Burish, filed as Exhibits 10.1, 10.2, and 10.3 to the Form 8-K filed on December 30, 2014 and hereby incorporated by reference.
10.7	Lease Agreement between Mediasite KK, as tenant, and Ollie Company as landlord, dated September 1, 2011, filed as Exhibit 10.23 to the form 10-Q filed on February 6, 2015, and hereby incorporated by reference.
10.8	Lease Agreement between Mediasite KK, as tenant, and Ollie Company as landlord, dated September 1, 2011, filed as Exhibit 10.24 to the form 10-Q filed on February 6, 2015, and hereby incorporated by reference.
10.9	Lease Agreement between Sonic Foundry International, as tenant, and Prinsen Geerligs as landlord, dated February 1, 2014, filed as Exhibit 10.25 to the form 10-Q on February 6, 2015, and hereby incorporated by reference.

10.10 Loan and Security Agreement, dated May 13, 2015 among Registrant, Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit 10.27 to the form 10-Q filed on May 14, 2015, and hereby incorporated by reference.

10.11 Warrant, dated as of May 13, 2015, between Registrant and Partners for Growth IV, L.P., filed as Exhibit 10.28 to the form 10-Q filed on May 14, 2015, and hereby incorporated by reference.

10.12 Warrant dated as of May 13, 2015, between Registrant and PFG Equity Investors, LLC, filed as Exhibit 10.30 to the form 10-Q filed on May 14, 2015, and hereby incorporated by reference.

10.13 Intellectual Property Security Agreement, dated as of May 13, 2015, between Registrant and Partners for Growth IV, L.P., filed as Exhibit 10.31 to form 10-Q filed on May 14, 2015, and hereby incorporated by reference.

10.14 Modification No. 1 to Loan and Security Agreement, dated September 30, 2015 among Registrant, Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit No. 10.2 to the Form 8-K filed on October 9, 2015, and hereby incorporated by reference.

10.15 Lease Agreement between Mediasite KK, as tenant, and Sumitomo Metal Mining Co., Ltd., as landlord, dated August 1, 2016, filed as Exhibit 10.1 to the Form 8-K filed on August 3, 2016, and hereby incorporated by reference.

10.16 Modification No. 2 to Loan and Security Agreement, dated February 8, 2017 among Registrant, Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit 10.28 to the Form 10-Q filed on February 9, 2017, and hereby incorporated by reference.

10.17 Waiver and Modification No. 3 to Loan and Security Agreement, dated May 11, 2017 among Registrant Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit 10.31 to the Form 10-Q filed on May 11, 2017, and hereby incorporated by reference.

10.18 Subscription Agreement between Registrant and Mark D. Burish, dated May 30, 2017, filed as Exhibit 3.02 to the 8-K filed on June 5, 2017, and hereby incorporated by reference.

10.19 Agreement Not to Convert between Registrant and Mark D. Burish, dated November 17, 2017, filed as Exhibit 10.1 to the Form 8-K filed on November 21, 2017, and hereby incorporated by reference.

10.20 Subscription Agreement between Registrant and Mark D. Burish, dated August 23, 2017, filed as Exhibit 10.1 to the 8-K filed on August 25, 2017, and hereby incorporated by reference.

10.21 Modification No. 4 to Loan and Security Agreement, dated December 28, 2017 among Registrant, Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit 10.2 to the Form 8-K filed on December 29, 2017, and hereby incorporated by reference.

10.22 Subscription Agreement between Registrant and Mark D. Burish, dated January 19, 2018, filed as Exhibit 10.1 to the Form 8-K filed on January 25, 2018, and hereby incorporated by reference.

10.23 10.75% Convertible Secured Subordinated Promissory Note between Registrant and Mark D. Burish, filed as Exhibit 10.2 to the Form 8-K filed on January 25, 2018, and hereby incorporated by reference.

10.24 Subscription Agreement between Registrant and Andrew D. Burish, dated April 16, 2018, filed as Exhibit 10.1 to the Form 8-K filed on April 18, 2018, and hereby incorporated by reference.

10.25 Warrant, dated April 16, 2018, filed as Exhibit 10.2 to the Form 8-K filed on April 18, 2018, and hereby incorporated by reference.

10.26 Loan and Security Agreement, dated May 11, 2018 among Registrant, Sonic Foundry, Inc. and Partners for Growth V, L.P., filed as Exhibit 10.41 to the Form 10-Q filed on May 15, 2018, and hereby incorporated by reference.

10.27 Warrant, dated as of May 11, 2018, between Registrant and Partners for Growth V, L.P., filed as Exhibit 10.42 to the Form 10-Q filed on May 15, 2018, and hereby incorporated by reference.

10.28	Promissory Note between Registrant and Mark D. Burish, dated January 4, 2019, filed as Exhibit 10.1 to the Form 8-K filed on January 8, 2019, and hereby incorporated by reference.
10.29	Promissory Note between Registrant and Mark D. Burish, dated January 31, 2019, effective upon receipt of funds on February 5, 2019, filed as Exhibit 10.1 to the Form 8-K filed on February 12, 2019, and hereby incorporated by reference.
10.30	Promissory Note between Registrant and Mark D. Burish, dated February 14, 2019, filed as Exhibit 10.1 to the Form 8-K filed on February 20, 2019, and hereby incorporated by reference.
10.31	Note Purchase Agreement between the Company and Mark Burish, dated February 28, 2019, filed as Exhibit 10.1 to the Form 8-K filed on March 6, 2019, and hereby incorporated by reference.
10.32	Warrant between the Company and Mark Burish, dated February 28, 2019, filed as Exhibit 10.2 to the Form 8-K filed on March 6, 2019, and hereby incorporated by reference.
10.33	Consent, Waiver & Modification to Loan and Security Agreement dated March 11, 2019 between Sonic Foundry, Inc. and Partners for Growth V, L.P., filed as Exhibit 10.1 to the Form 8-K filed on March 12, 2019, and hereby incorporated by reference.
10.34	Employment Agreement dated April 22, 2019 between Sonic Foundry, Inc. and Michael Norregaard, filed as Exhibit 10.1 to the Form 8-K filed on April 24, 2019, and hereby incorporated by reference.
10.35	Retirement and Transition Agreement dated April 22, 2019 between Sonic Foundry, Inc. and Gary Weis, filed as Exhibit 10.2 to the Form 8-K filed on April 24, 2019, and hereby incorporated by reference.
10.36	Retirement and Transition Agreement dated August 5, 2019 between Sonic Foundry, Inc. and Kenneth Minor, filed as Exhibit 10.1 to the Form 8-K filed on August 9, 2019, and hereby incorporated by reference.
10.37	Amended and Restated Employment Agreement dated as of August 23, 2019 by and between Sonic Foundry, Inc. and Michael Norregaard, filed as Exhibit 10.1 to the Form 8-K filed on August 29, 2019, and hereby incorporated by reference.
10.38	Lease Agreement between Mediasite KK, as tenant, and Maida Housing Corporation, as landlord, dated April 1, 2014, filed with the March 31, 2020 Form 10-Q and hereby incorporated by reference.
10.39	Term Loan Agreement dated January 30, 2020 between Mediasite KK and Sumitomo Mitsui Banking, filed with the March 31, 2020 Form 10-Q and hereby incorporated by reference.
10.40	First Amendment to Note Modification Agreement dated March 24, 2020 between Sonic Foundry, Inc. and Mark Burish, filed with the March 31, 2020 Form 10-Q and hereby incorporated by reference.
10.41	Term Loan Agreement dated April 20, 2020 between Sonic Foundry, Inc. and First Business Bank filed as Exhibit 10.1 to the Form 8-K filed on April 23, 2020 and herby incorporated by reference.
10.42	Debt Conversion Agreement dated May 13, 2020 between Sonic Foundry, Inc. and Mark Burish filed with the March 31, 2020 Form 10-Q and herby incorporated by reference.
21	List of Subsidiaries
23.1	Consent of Wipfli LLP, Independent Registered Public Accounting Firm
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer and Secretary
32	Section 906 Certification of Chief Executive Officer and Chief Financial Officer and Secretary

101	The following materials from the Sonic Foundry, Inc. Form 10-K for the year ended September 30, 2020 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.

Registrant will furnish upon request to the Securities and Exchange Commission a copy of all exhibits, annexes and schedules attached to each contract referenced in item 10.

*   Compensatory Plan or Arrangement

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/ Joe Mozden, Jr.
Joe Mozden, Jr.
Chief Executive Officer

Date: December 22, 2020

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/ Joe Mozden, Jr.	Chief Executive Officer	December 22, 2020
/s/ Kelsy L. Boyd	Chief Financial Officer	December 22, 2020
/s/ Mark D. Burish	Chair and Director	December 22, 2020
/s/ Frederick H. Kopko, Jr.	Director	December 22, 2020
/s/ Brian T. Wiegand	Director	December 22, 2020
/s/ Nelson A. Murphy	Director	December 22, 2020
/s/ Gary R. Weis	Director	December 22, 2020
/s/ David F. Slayton	Director	December 22, 2020

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