

DECEMBER 31, 2007



**BEACON
ROCK
RESEARCH**

Special Report

Sonic Foundry, Inc.

NasdaqNM: SOFO

Mike Niehuser
503-307-3188

mike@beaconrockresearch.com

www.beaconrockresearch.com

5956 N.W. 213th Place, Portland, Oregon 97229

Sonic Foundry Leadership in Long Distance Education

We consider Sonic Foundry Inc.'s (NasdaqNM: SOFO) suite of Mediasite Internet recording products to be the most effective manner to communicate "serious" content on the Internet. Our opinion is based on our personal experience using the product in both education and in corporate communications. The product excels when the source of serious content has an earnest and important message to share with an audience equally anxious to fully understand and make good use of the message. The more competent and confident the source, and the more willing the audience, the more effective are Sonic Foundry's products in conveying an important message.

Our Case for the Best Use of Sonic Foundry Products and Services

Few sources can equal the self assuredness of a message than by a university professor. Nobody understands a subject and is more confident of course content than a PhD. The instructor is focused on the goal of imparting the wisdom of the message and is intolerant of friction or disruption in conveying the lesson. On the receiving end of the message, nobody is more earnest and intent on grasping the core content than a struggling student hanging on each morsel of information. The more complex the content, and competitive the learning environment, the more welcome is Sonic Foundry's solution. We find the types of courses most suited to Sonic Foundry's products are medical, engineering, and financial courses.



Second only to the university professor in command of a message is a company's Chief Executive Officer. A CEO is solely responsible for understanding the operations and vision of their company, and equally responsible for sharing both competently and completely to investors. If the company has a good story to tell, Sonic Foundry's product is possibly the most effective way it can be shared to the widest audience. Just as with a university professor, a CEO should be intolerant of friction or disruption in conveying the company's vision and story (incidentally, most CEO's lack tenure and his/her salary depends upon it). On the receiving end, clearly nobody is more intent on understanding a company's story than an investor.

Corporate Officer
Contact Person
Corporate Address
Website

Rimas P. Buinevicius, CEO
Kenneth A. Minor, CFO
222 West Washington Ave., Madison, WI 53703
www.sonicfoundry.com

(608) 443-1600
(608) 443-1600

This Information is obtained for sources believed to be reliable, but its accuracy and completeness are not guaranteed. Copying, faxing, replicating, or quoting from this report without permission is in direct violation of copyright laws. Beacon Rock Research employees and affiliates may have positions and effect transactions in the securities or options of the issuers reported herein. Please refer to the company index in the back of this issue for additional disclosures.

Our Experience in Education

We have used Sonic Foundry's products for the last three years offering a long distance education component to the Pacific Coast Banking School, considered to be the premier professional banking school, conducted at the University of Washington. The school is a catalyst to accomplished professional bankers mid-way in their careers to assume executive level achievement. Counting the number of students, number of lectures, and hours of lecture time, we provided 37,000 student-lecture-hours for PCBS students. The robust product offering was best explained by Dr. Jim Owens (www.beaconrockresearch.com/owens1.htm), PCBS instructor, and Head of the Department of Accounting, Economics and Finance in the College of Business at West Texas A & M University, explaining the product offering during the 2006 session.



Dave Enger, the Pacific Coast Banking School's CEO stated, "Bank executives participating in the Pacific Coast Banking School have widely diverse backgrounds, and the PCBS curriculum is designed to challenge participants. Returning to their demanding careers and lives following the intense 2-week school session, participants found that access to the video recordings of their classes provided an opportunity to maximize their learning, and particularly invaluable in completing their assignments over the intervening year, that require them to apply the concepts learned in class to their own institutions."

Students come from disparate silos of expertise, ranging from retail or commercial banking, to human resources, auditing, or information technology. Some students are outside banking, such as bank examiners, bank associations, and credit unions. Having attended the school in the late 1990's, we witnessed the debilitating effect of fear imposed on professionals straining to learn subjects outside their specialty.

A good example is Steve Turkiewitz, CEO of the Montana Bankers Association, who said "As a non-bank professional, the internet access to the PCBS lectures provided me the flexibility to review the complex finance concepts presented by the PCBS instructors on my schedule. This resource enhanced the value of the PCBS experience." Off the record, Steve confessed the availability of rich media recordings "were a life saver."

Some students geographically lack the benefit of working with other students while completing their assignments following the summer session. Lee Francis of the Bank of Saipan, said "I really appreciate the availability of the video presentations. It helped me so much to understand what the subjects really are all about. It's something that's really hard to do during the two hectic weeks stay at the University of Washington. I would probably be lost without the help of the video presentations."

There was abundant anecdotal evidence affirming the effectiveness of the Sonic Foundry recordings. Following the first year we were consistently stopped by now upper class students and thanked repeatedly for the "life saving" help provided. We also took the opportunity to address classrooms and poll students as to its effectiveness. Nearly all the students utilized the recordings, and most were very satisfied.



Our Experience in Corporate Communications

We have first hand experience utilizing Sonic Foundry's product solution to supplement our research in the mining sector. We have found the mining industry, an unfamiliar industry to most investors in the lower 48 states, to be particularly appreciative of the product's educational characteristics. Interestingly, the mining industry has a unique combination of science, engineering, and financial aspects that appear perfectly suited for Sonic Foundry's products. CEO's are provided an excellent platform to personally discuss their company's progress, competitive position, and value proposition.



Our initial demonstration of the versatility of the product was for our virtual investment conference conducted at Skamania Lodge near Beacon Rock in Washington State on October 31, 2005. We have subsequently recorded corporate presentations at other conferences and by visiting companies at their corporate headquarters, demonstrating the flexibility and ability to provide low-cost effective communications.

We believe that Sonic Foundry's Internet recorders are a destructive product challenging the monopolistic manner in which information is conveyed by opinion makers in the financial industry. Sonic Foundry's products allow companies to communicate directly with investors to make their own informed decisions, effectively bypassing salespeople, analysts, business publications, and newsletter writers. Exeter Resources Corporation's CEO Yale Simpson hailed the ability to directly communicate with investors as "brilliant." The link to Exeter's corporate presentation is a good example (<http://www.beaconrockresearch.com/exeter.htm>). Sonic Foundry's product has allowed us the uncommon ability to understand, analyze and communicate investment opportunities.



Concluding Comments

We have heard the elegance of Sonic Foundry's products referred to as the "Rolls Royce" of rich media communications over the Internet. Having provided research coverage on Sonic Foundry for several years, we have not found serious competition for the niche their product occupies. Given the consistent sales penetration with existing customers, we see their products resemble the reliability and dependability of a HP 12-C financial calculator, a cornerstone among financial professionals for decades.

Sonic Foundry's stock is currently trading near levels when we initiated coverage on March 15, 2005. The Company has methodically improved its product offering, increased revenues, and diversified revenue sources. At the current price level, Sonic Foundry's shares trade at about 3.1x trailing four quarter revenues, having averaged between 4.3 and 7.7 times trailing revenues over the prior two years. With the strong likelihood of higher revenues and potentially breaking even, we consider the purchase of shares of Sonic Foundry following a period of tax-loss selling to be even more attractive.

December 31, 2007

DISCLOSURES:

Information, opinions, or recommendations contained in Beacon Rock Research's research reports or research notes are submitted solely for advisory and information purposes. Beacon Rock Research, LLC provides information and analysis on selected companies, with a focus on small-cap and micro-cap companies.

This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Chartered Financial Analyst Institute (CFAI). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. In this instance, a comparison of financial strength, a bottom-up earnings projection based on a recovery in the U.S. economy, and relative multiples, were employed. The target price was calculated on comparative EPS, sales and book value multiples, and our knowledge of small-cap markets when enjoying both a sector and a cyclical rebound. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

Key to disclosures:

1. The research analyst has a long position in the securities of the Subject Company.
2. The Subject Company has provided Mediasite™ recording units plus additional software and server availability valued at \$25,000 to SLB Equity Research, LLC., one of its affiliates, for securing research coverage and providing other awareness building services. SLB Equity Research, LLC may provide additional awareness building services on an ala carte basis.
3. The research analyst principally responsible for preparing this research report received compensation based upon various factors, including SLB Equity Research, LLC total revenue.
4. This report was prepared exclusively for the benefit of institutional investors and may or may not receive compensation directly or in soft dollar arrangements.

The analyst, Mike Niehuser, hereby certifies that the research conclusions and recommendation contained herein accurately reflects his personal views about the industry, company and shares and also hereby certifies that no part of his research compensation was or will be directly or indirectly related to the earnings estimates, target price or recommendation about the security.

The research provided herein should not be considered a complete analysis of every material fact regarding the companies, industries or securities named above. The opinions expressed herein reflect the analysis and judgment of the author on the date of publication and are subject to change without notice. Facts have been obtained from sources considered reliable but should not be construed as complete and are not guaranteed to be accurate. Beacon Rock Research, LLC; its members; employees and their families may have positions in the securities covered within the research material above and may make purchases or sales while this report is in circulation. Additional information on the subject companies is available upon request.

EQUITY RECOMMENDATION SYSTEM:

Buy	Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months.
Hold	Holding the stock is recommended because the share price's appreciation potential is less than or equal to the market.
Sell	The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

EQUITY RISK SYSTEM:

High	The security is more volatile than the market and/or the company is more leveraged than its peer group.
Moderate	The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group.
Low	The security is less volatile than the market and/or the company is less leveraged than its peer group.

DISTRIBUTION OF RECOMMENDATIONS:

At this time, there are an insufficient number of companies under coverage to generate usable distribution information or draw any conclusions regarding bias about the research methodology. Prospective companies are screened and evaluated by sales personal and research analysts with the investment thesis and overall research recommendation developed before the commission is established.