



BEACON ROCK RESEARCH

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RESEARCH NOTE

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Disclosures 1,2,3,4

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

Sonic Foundry Inc. (NasdaqNM: SOFO, \$4.70)

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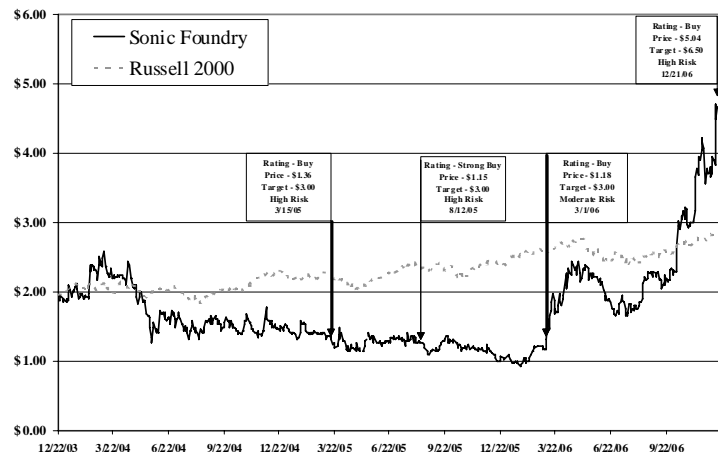
Sonic Foundry Announces Public Offering

Sonic Foundry Inc. (NasdaqNM: SOFO) announced an offering of 3,000,000 shares at \$3.75 per share to close December 27, 2006. The announcement was completed within minutes of the publishing of our latest report. We had increased our 12-month target price to \$6.50 per share from \$3.00 per share. We also increased our risk assessment for potential volatility leading up to the company's first quarter earnings release to High from Moderate.

The offering is expected to increase SOFO's cash position by about \$11 million. The company reported funds from the offering would be used for "support of continuing research and development efforts and capital expenditures in areas including advancement of its search technology, intellectual property protection, as well as other business development activities, working capital needs and general corporate purposes." While the offering was at a significant discount to the market price as of the date of our report and modestly increases dilution, we see the management's actions as appropriate for a number of reasons.

- Provides more than adequate working capital for operations.
- Increases strength of balance sheet for the benefit of clients and investors.
- Pricing of the offering relative to 52 week average increases corporate visibility to investors.
- The offering is modest relative to the shelf offering of \$42.6 million.

The stock price declined at opening, well below the previous day's close and price on our report, but was positively viewed by investors as the stock traded higher through the day. Timing of the publication of our report aside, with the additional cash on its balance sheet and lower price, we have increased confidence in our recommendation. We reiterate our **Buy** recommendation and 12-month price target of **\$6.50** per share. We also continue to see potential for increased volatility through the end of 1Q07 and maintain our **High** risk assessment.



DISCLOSURES:

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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 a Mediasite™ recording unit 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.

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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.

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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.