

MAY 9, 2005



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Sonic Foundry, Inc.

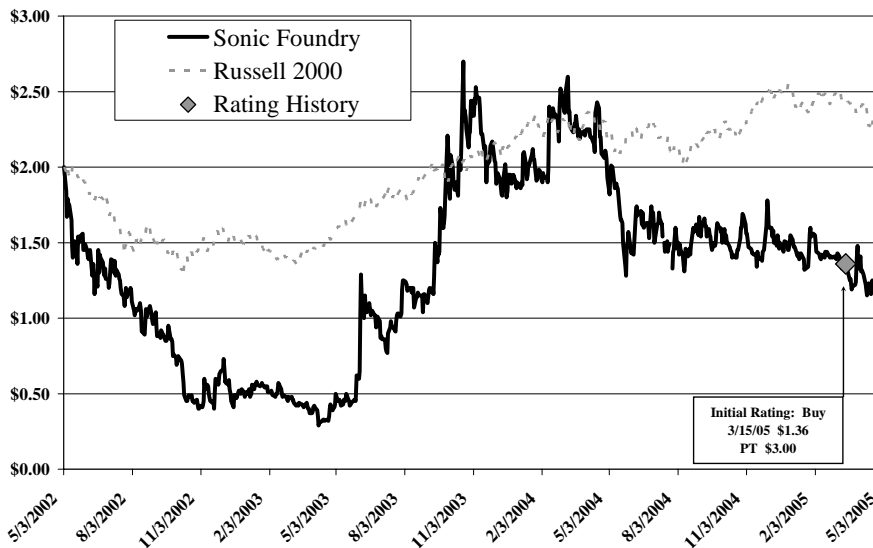
NasdaqNM: SOFO

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Price	\$1.15	Shares (mils)	30.2
P/E Ratio (ttm)	NA	Market Cap (mils)	\$34.70
P/S Ratio (ttm)	5.5 X	52 Week Range	\$2.11 - \$1.05
Sales/share (ttm)	0.21	Ave. Daily Vol.	46,064
Price/Book	2.6 X	Short Interest	420,720
Book Value	\$0.49	Gross Margin	67.6%
Cash/share	\$0.18	Oper. Margin	-46.8%
Quick Ratio	2.62	Insider Ownership	13.1%
Debt to cap ratio	0.00 %	Inst'l Ownership	21.5%

Price Target	\$3.00
Rating	Buy
Risk	High
Disclosures	10, 11, 12



Sonic Foundry, Inc.'s (Nasdaq: SOFO) Mediasite presentation recorders provide an elegant solution for distributing "one-to-many" rich media content for educational institutions, corporations and government organizations for live or on-demand viewing over the Internet, intranet or recording to physical media.

- Revenues up 120% in 2Q05 over 2Q04, with gross margins expanding to 68%.
- The company sold 114 recorder units in 2Q05, almost double the 66 units sold in 2Q04.
- Cash used for operations declined to \$900,000 in 2Q05, and cash was \$5.4 million at the end of 2Q05.

Earnings Per Share					
	Q1: Dec	Q2: Mar	Q3: Aug	Q4: Sep	Annual
2007E	\$ 0.11	\$ 0.14	\$ 0.16	\$ 0.20	\$ 0.60
2006E	\$ 0.02	\$ 0.04	\$ 0.06	\$ 0.08	\$ 0.20
2005E	\$ (0.05)	\$ (0.03)	\$ (0.03)	\$ (0.01)	\$ (0.11)
2004A	\$ (0.04)	\$ (0.04)	\$ (0.05)	\$ (0.05)	\$ (0.18)

We retain our **Buy** rating and a price target of **\$3** per share, or 3.5x our estimate of sales per share of \$0.87 for fiscal 2006, and 15x our fiscal 2006 pre-tax earnings forecast of \$0.20 per share.

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Investment Thesis Update

Sonic Foundry, Inc.'s (Nasdaq: SOFO) provides elegant off-the-shelf technology for "one to many" communications that simplifies production and improves the viewing experience of rich media content. SOFO's stock price is now below its \$1.36 price per share when we initiated coverage on March 15, 2005. We attribute the decline to the market being especially unkind to companies that are not producing earnings. Despite the decline from the introduction of our coverage, we don't see any erosion in our original investment thesis. The company continues to build momentum.

Sales Progress Update

Higher education continues to be the primary customer segment for sales of Mediasite presentation recorders. As of 2Q05, SOFO has 111 customers in the higher education segment compared to 46 in 2Q04. Likewise, the number of customers in its corporate segment increased to 78 in 2Q05, up from 37 in 2Q04. Total number of customers increased to 310, more than double the 141 customers in 1Q04.

SOFO management also notes it is expanding its marketing horizons to include Europe and Asia. In addition, the company continues to invest in R&D to improve the Mediasite presentation recorders operability, for ease of use and versatility, for the enterprise segment. Also, management is pleased with the increasing number of applications for which its device is being utilized.

It is a combination of these factors that cause us to believe that revenues will continue to increase exponentially through fiscal 2005 and 2006, at stable or increasing average sales prices per unit. Average sales price continued to increase in the quarter. Repeat buyers decreased to 38% in 2Q05, down from 48% in 1Q05, but still ahead of 35%, the average for fiscal 2004. The decrease in repeat buyers combined with high rates of growth to new customers, further supports our thesis of rapidly increasing revenues, as a portion of new customers become repeat buyers as well.

Fiscal 2Q05 Financial Results

SOFO increased sales of its Mediasite presentation recorders to 114 units in 2Q05, compared to 89 units in 1Q05, and 66 units in 2Q04. Average sale price continued to increase while the number of sales to existing customers remained relatively high. SOFO reported revenues from sales of Mediasite presentation recorders of \$1.7 million in 2Q05, up from \$1.3 million in 1Q05, and \$691,000 in 2Q04.

Customer support fees of \$171,000 in 2Q05 were up from \$90,000 in 2Q04, but this was down slightly from \$189,000 in 1Q05. We see customer support fees resuming an upward trend in 2005 and 2006 and this line item becoming an important contributor to earnings. The company also reported other income of \$224,000 for custom software development for the U.S. Department of Justice. Total revenues for the quarter were \$2.1 million in 2Q05, well ahead of \$941,000 in 2Q04, and beating our estimate of \$2.0 million for the quarter. We were slightly overly optimistic on revenues from sales of the company's products and customer support fees and we underestimated other income from government contracts.

As management anticipated, gross margin continued to expand to 68% in 2Q05, up from 66% in 1Q05, and much improved from 54% in 2Q04. Management attributes a portion of the increase in gross margin to be due to higher levels of customer support fees. We see the combination of rapidly increasing revenues, and existing high gross margins and the opportunity for sequential expansion creating a condition for progressively higher levels of operating leverage.

Total operating expenses were \$2.4 million in 2Q05, or 114% of revenues, compared to \$1.8 million in 2Q04, which was 195% of revenues. The operating expense in 2Q05 was below our estimate of \$2.7 million. This was due to our overly cautious assumption for selling and marketing expense that failed to materialize. Likewise we were slightly below actual general and administrative expenses. Overall operating expenses were 29% higher in 2Q05 over 2Q04. The growth rate of operating expenses is well below the growth rate of revenues or gross profit and the company is on course for profitability in the near term.

SOFO reported a net loss of \$941,000 in 2Q05, or a loss of \$0.03 per share. Earnings performance in the quarter improved upon a net loss of \$1.3 million in 2Q04, or a loss of \$0.04 per share. In addition, the results were better than management's earlier guidance of a loss of \$0.04 per share and our earnings estimate of a loss of \$0.04 per share. This was due to higher than anticipated other income coupled with lower than anticipated sales and marketing expense.

SOFO's balance sheet remains strong despite the decline in cash to \$5.4 million at the end of 2Q05, compared to \$7.6 million at the end of fiscal 2004. The cash burn rate declined to \$700,000 in 2Q05, from \$1.1 million in 1Q05. Accounts receivable are predictably higher, but management reports that DSOs are reasonably constant. Interestingly, despite rapid growth, payables actually declined in 2Q05 compared to 4Q04 and the company remains debt free. We do note a increase in unearned revenue which follows a higher level of customer support fees.

Management Guidance

Due to the relatively lengthy sales process and a focus on a single product, we believe that management has better than average visibility of revenues and expenses. A shorter lead time for repeat orders or multiple purchases offer additional unexpected upside. They continue to maintain a \$2.4 to \$2.6 million range for revenues in 3Q05 on pace to approach earlier guidance of \$10 million for fiscal 2005. This would suggest a "hockey stick" growth pattern at year end. They see gross margin now trending toward 70% late in the current year. They also see operating expenses trending slightly higher with selling and marketing expense 10% higher in 3Q05, compared to 2Q05. Management is providing guidance for a loss of \$0.03 per share in 3Q05 and breakeven in 4Q05.

Our Model

Management's guidance for fiscal 2005, with only two quarters left in the year, is likely to resemble actual results. We forecast revenues, margins and net income to come within management guidance with one departure. We estimated a loss of \$0.01 per share in 4Q05 compared to management's \$0.00 estimate for the quarter. While this may end up being only a rounding error, we have difficulty modeling trends for fiscal 2006 and 2007 without setting us up for having an overly aggressive long-term forecast. Like our perception of management's visibility in the near term, we believe our model for fiscal 2006 and 2007 appears aggressive, but still within the company's reach.

We anticipate a stable average sales price through fiscal 2007, and that the geometric increase in unit sales in fiscal 2005 will become more linear in fiscal 2006. This may be a conservative assumption depending upon the company's potential for multiple unit sales, developing other segments, and expanding its geographic reach. We also see SOFO still in the early stages of penetrating its core market segments. We also forecast gross margins gradually trending toward 68% and then stabilizing. We feel we are getting a handle on forecasting operating expenses. Management appears to have a grip on overhead but we will be watching sales and marketing expense, a key line item to control if the company should achieve the earnings growth we have modeled. Our model forecasts a loss of \$0.11 per share in fiscal 2005, turning profitable in 1Q06 with pre-tax earning \$0.20 per share in fiscal 2006 and \$0.60 per share in fiscal 2007. As of the end of the 2004 fiscal year, SOFO had net operating loss carry forwards of approximately \$64 million for U.S. Federal and State tax purposes. Net operating loss carry forwards expire in varying amounts between 2013 and 2024.

Valuation and Conclusion

As SOFO approaches breakeven we anticipate they will experience a higher level of visibility among investors. The company may also be valued in relation to its level, or growth rate of earnings, opposed to a multiple of sales or book value. We retain our target price of **\$3.00** per share which is only 15x our earnings estimate for fiscal 2006, which is an 18-month financial forecast compared to results expected in the next year. We also retain our **Buy** rating, as we see the company at the current price to be undervalued, based on financial results over the last two years and current growth prospects.

Risks

We also retain our **High** risk rating. This is primarily due to the fact that the company has not yet achieved profitability. As witnessed in the recent quarter, the market has been unforgiving to companies without earnings. In addition, we see increasing interest in the area of rich media and increased functionality for producers and distributors of rich media content. While we believe SOFO is in a very good position in its niche, we can perceive an opportunity for larger and better known companies allocating additional resources and obscuring the successes the company has enjoyed.

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SLB Equity Research LLC

May 9, 2005

Somic Foundry, Inc.
September FYE

	1Q05A	2Q05A	3Q05E	4Q05E	1Q06E	2Q06E	3Q06E	4Q06E	2004A	2005E	2006E	2007E
	Dec.-03	Mar.-04	Jun.-04	Sept.-04	Dec.-05	Mar.-05	Jun.-05	Sept.-05				
Income Statement												
Revenues												
Mediasite revenues	\$1,339	\$1,665	\$2,300	\$3,375	\$4,450	\$5,560	\$6,675	\$9,100	\$3,443	\$8,679	\$24,485	\$44,700
Customer support fees	189	177	217	284	385	513	656	952	425	867	2,354	4,806
Other	63	224	70	70	70	70	70	75	545	427	280	300
Total revenues	1,591	2,066	2,587	3,729	4,905	6,143	7,401	10,127	4,413	9,973	27,119	49,806
Cost of goods sold	536	669	854	1,221	1,594	1,981	2,368	3,190	1,759	3,280	8,696	15,482
Gross profit	1,055	1,397	1,733	2,508	3,311	4,162	5,032	6,937	2,654	6,693	18,422	34,323
Operating expenses												
Selling and marketing expenses	1,231	1,133	1,350	1,400	1,500	1,650	1,800	2,100	3,826	5,114	6,900	8,900
General and administrative expenses	815	771	830	835	855	865	875	970	2,826	3,251	3,480	4,030
Product development expenses	455	459	470	470	490	500	510	530	1,609	1,854	2,020	2,180
Total operating expense	2,501	2,363	2,650	2,705	2,845	3,015	3,185	3,600	8,261	10,219	12,400	15,110
Operating income	(1,446)	(966)	(917)	(197)	466	1,147	1,847	3,337	(5,607)	(3,526)	6,022	19,213
Other income (expense)	46	25	20	18	21	23	24	26	99	109	93	110
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0
Income (loss) before income taxes	(1,400)	(941)	(897)	(179)	487	1,170	1,871	3,363	(5,508)	(3,417)	6,115	19,323
Provision for income taxes	0	0	0	0	0	0	0	0	0	0	0	0
Net income (continuing operations)	(1,400)	(941)	(897)	(179)	487	1,170	1,871	3,363	(5,508)	(3,417)	6,115	19,323
Earnings per share (continuing operations)	\$ (0.05)	\$ (0.03)	\$ (0.03)	\$ (0.01)	\$ 0.02	\$ 0.04	\$ 0.06	\$ 0.11	\$ (0.19)	\$ (0.11)	\$ 0.20	\$ 0.62
Diluted shares	29,966	30,162	30,400	30,600	30,800	31,000	31,200	31,600	29,457	30,282	31,100	31,300
Revenue												
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	33.7%	32.4%	33.0%	32.8%	32.5%	32.3%	32.0%	31.5%	39.9%	32.9%	32.1%	31.1%
Gross profit	66.3%	67.6%	67.0%	67.3%	67.5%	67.8%	68.0%	68.5%	60.1%	67.1%	67.9%	68.9%
Selling and marketing expenses	77.4%	54.8%	52.2%	37.5%	30.6%	26.9%	24.3%	20.7%	86.7%	51.3%	25.4%	17.9%
General and administrative expenses	51.2%	37.3%	32.1%	22.6%	17.4%	14.1%	11.8%	9.6%	64.0%	32.6%	12.8%	8.1%
Product development expenses	28.6%	22.2%	18.2%	12.6%	10.0%	8.1%	6.9%	5.2%	36.5%	18.6%	7.4%	4.4%
Total operating expense	157.2%	114.4%	102.4%	72.5%	58.0%	49.1%	43.0%	35.5%	187.2%	102.5%	45.7%	30.3%
Operating income	-90.9%	-46.8%	-35.4%	-5.3%	9.5%	18.7%	25.0%	33.0%	-127.1%	-35.4%	22.2%	38.6%
Other income (expense)	2.9%	1.2%	0.8%	0.5%	0.4%	0.4%	0.3%	0.3%	2.2%	1.1%	0.3%	0.2%
Net income (continuing operations)	-88.0%	-45.5%	-34.7%	-4.8%	9.9%	19.0%	25.3%	33.2%	-124.8%	-34.3%	22.6%	38.8%
Sales/share (tmn)												
Sales/share (tmn)	\$ 0.17	\$ 0.21	\$ 0.25	\$ 0.33	\$ 0.43	\$ 0.56	\$ 0.72	\$ 1.03	\$ 0.04	\$ 0.15	\$ 0.87	\$ 1.56

Sonic Foundry, Inc.
September FYE
BALANCE SHEET

ASSETS	2001	2002	2003	2004	3Q04	4Q04	1Q05	2Q05
Cash and equivalents - (000's)	\$7,809	\$3,704	\$12,623	\$7,583	\$9,095	\$7,583	\$6,365	\$5,395
Accounts receivable	4,065	484	508	1,345	1,062	1,345	1,303	1,959
Accounts receivable, other	26	43	139	18	26	18	15	13
Inventory	0	48	111	371	240	371	391	194
Other current assets	2,203	294	214	281	443	281	211	241
Assets of discontinued operations	0	4,087	0	0				
Total current assets	14,103	8,660	13,595	9,598	10,866	9,598	8,285	7,802
Net property, plant, and equipment	11,804	574	588	745	783	745	691	844
Goodwill & intangibles	44,805	8,949	8,618	8,288	8,371	8,288	8,206	8,123
Deferred long-term asset charges	514	653	0	0	0	0	0	0
Other assets	457	0	0	0	0	0	0	0
Long-term assets of discontinued operations	0	8,807	0	0	0	0	0	0
Total assets	\$71,683	\$27,643	\$22,801	\$18,631	\$20,020	\$18,631	\$17,182	\$16,769
LIABILITIES AND SHAREHOLDERS' EQUITY								
Accounts payable	\$2,316	\$1,531	\$1,065	\$879	\$885	\$879	\$797	\$864
Accrued liabilities	2,064	950	1,263	686	763	686	363	576
Unearned revenues	83	0	194	473	415	473	467	623
Current portion of capital lease obligation	5,219	217	48	0	0	0	0	0
Convertible debt	0	3,482	0	0	0	0	0	0
Liabilities of discontinued operations	0	2,976	0	0	0	0	0	0
Current liabilities	9,682	9,156	2,570	2,038	2,063	2,038	1,627	2,063
Long-term debt	742	230	0	0	0	0	0	0
Deferred long-term liability charges	28	38	0	27	29	27	26	24
Other long term liabilities	0	235	0	0	0	0	0	0
Shareholders' equity	61,231	17,984	20,231	16,566	17,928	16,566	15,529	14,682
Total liabilities and shareholders' equity	\$71,683	\$27,643	\$22,801	\$18,631	\$20,020	\$18,631	\$17,182	\$16,769
Cash per share	\$0.35	\$0.14	\$0.44	\$0.26	\$0.31	\$0.26	\$0.21	\$0.18
Quick ratio	1.23	0.46	5.11	4.38	4.92	4.38	4.71	3.56
Current ratio	1.46	0.95	5.29	4.71	5.27	4.71	5.09	3.78
Debt to capitalization ratio	1.26%	1.49%	0.00%	0.16%	0.16%	0.16%	0.17%	0.16%
Book per share	\$2.76	\$0.67	\$0.70	\$0.56	\$0.61	\$0.56	\$0.52	\$0.49

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11. The analyst who wrote this report is a shareholder of Crown Point Group, Ltd. and an employee of its whole-owned subsidiary, The Robins Group, LLC, a broker/dealer.
12. The Subject Company made possible the use of a RL400 Mediasite presentation recorder, plus additional services, with an estimated value of \$29,500, to SLB for a period of one year, in exchange for research coverage.

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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.

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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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