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Sonic Foundry, Inc.

NasdaqNM: SOFO

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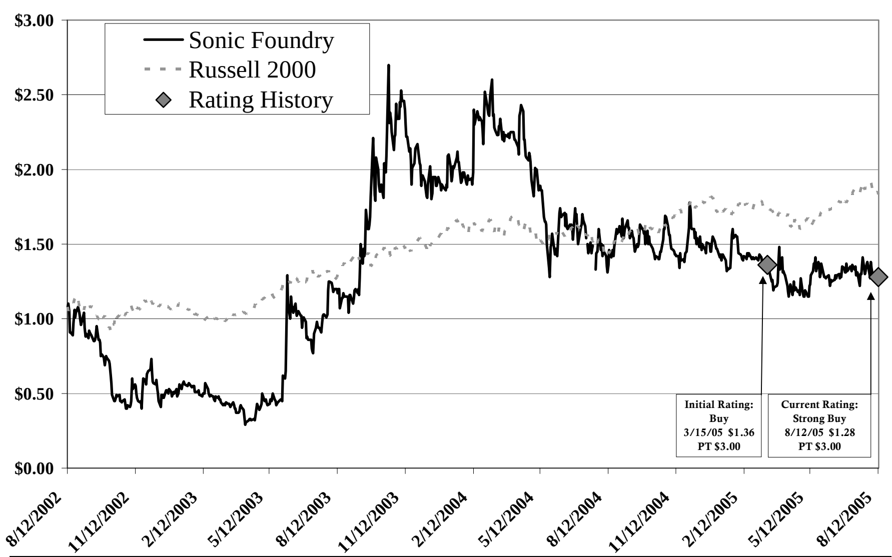
Price	$1.28	**Shares (mils)**	30.5
P/E Ratio (ttm)	NA	**Market Cap (mils)**	$38.70
P/S Ratio (ttm)	4.3 X	**52 Week Range**	$1.85 - $1.05
Sales/share (ttm)	$0.30	**Ave. Daily Vol.**	35,234
Price/Book	2.8 X	**Short Interest**	371,168
Book Value	$0.45	**Gross Margin**	64.3%
Cash/share	$0.15	**Oper. Margin**	-51.7%
Quick Ratio	2.13	**Insider Ownership**	15.2%
Debt to cap ratio	0.00 %	**Inst'l Ownership**	22.0%

Price Target	**$3.00**
Rating	**Strong Buy**
Risk	**Moderate**
Disclosures	**10, 11, 12**



Earnings Per Share					
	Q1: Dec	**Q2:Mar**	**Q3:Jun**	**Q4:Sep**	**Annual**
2007E	$ 0.11	$ 0.13	$ 0.15	$ 0.17	$ 0.56
2006E	$ 0.01	$ 0.03	$ 0.06	$ 0.08	$ 0.18
2005E	$ (0.05)	$ (0.03)	$ (0.03)	$ (0.01)	$ (0.12)
2004A	$ (0.04)	$ (0.04)	$ (0.05)	$ (0.05)	$ (0.18)

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 of $2.2 million in 3Q05, up 88% over 3Q04.
- 131 recorder units sold in 3Q05, up from 68 units in 3Q04.
- Cash used for operations declined to $810,000 in 3Q05, and cash was $4.5 million at the end of 3Q05.

We are increasing our rating to **Strong Buy** from **Buy** and reiterate our price target of **$3** per share, or 3.8x our estimate of sales per share of $0.79 for fiscal 2006, and 18x our fiscal 2006 pre-tax earnings forecast of $0.17 per share.

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Investment Thesis Update:

Sonic Foundry, Inc. (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 continues to trade at or below its $1.36 price per share when we initiated coverage on March 15, 2005. Sales growth is sufficient for management to deliver on guidance and cause them to recognize the upcoming quarter as "pivotal" in the company's history.

We observe a sustained linear increase in revenues with good control of operating expenses. In addition, the company continues to improve the product offering, and with increasing focus on its sales force and geographic and industry segment expansion, management has offered guidance of total revenues of $3 million in 4Q05, and breaking-even in 1Q06. This suggests that revenues and earnings may begin to increase at an exponential rate rather than linear rate, accelerating the company's progress toward breaking-even over the next two quarters. For this reason, SOFO's stock may enjoy above average appreciation over the next 12 months. We believe this merits an increase in our recommendation and moderation of the risk assessment.

Sales Progress Update:

Total number of customers increased to 383 in 3Q05, almost double the 194 customers in 3Q04. The higher education and corporate segment continue to be the two largest segments, about 60.0% of customers in the third quarter of fiscal 2004 and 2005. As of 3Q05, SOFO has 139 customers in the higher education segment, more than double 68 in 3Q04. Likewise, the number of customers in its corporate segment increased to 89 in 3Q05, up from 47 in 3Q04.

Sales to customers with more than one unit increased to 76 in 3Q05 compared to 23 in 3Q04. In addition, management noted that its top five deals had a value of $951,000 in August of 2005 compared to $233,000 in June of 2004. Considering the size of the education and corporate markets, results to date reasonably suggest these market segments may continue to experience an above average rate of growth.

Expanding sales platform and product offering:

We observe SOFO is expanding their sales and marketing platform and adding to their product offering. This is important not only because it provides for additional sales growth but also because it is a barrier to entry against direct competitors and encroachment from related industry segments such as video conferencing and production. Furthermore, management's initiatives and discussion reflect a maturing organizational sales effort evidencing an expanding platform supporting sales growth. A summary of these points are as follows:

- The sales group got a lift from the appointment of Darrin Coulson as head of sales and marketing. Mr. Coulson has led sales and service divisions of larger established companies and we believe he will invigorate and focus the sales force leading to even better results. The sales group has been restructured which includes new hires and reassignments. Management believes its sales force is now better organized to increase sales penetration.
- SOFO made a number of product announcements. They introduced an improved, more durable and lighter, ML (mobile) Mediasite recorder. The company introduced the Mediasite VL440 capable of capturing and publishing meetings and presentations from video conference systems. This is important because it expands SOFO's footprint into the video conferencing market, digitizing (and indexing) real-time discussions, extending the "rich media" concept to room recording. SOFO also introduced improved editing features within the Mediasite environment preserving metadata, scripts, timing, and synchronization. This is important to increase flexibility to the user to improve the production quality of content relative to competing video production products and services. Lastly, they also introduced the Mediasite LX Server providing additional content management and scalability. This we believe is key for SOFO to expand commercialization of one of its core competencies.

Fiscal 3Q05 Financial Results:

SOFO increased sales of its Mediasite presentation recorders to 131 units in 3Q05, compared to 68 units in 3Q04, and 114 units in 2Q05. Average sale price was unchanged from 3Q04 to 3Q05 while SOFO reported revenues from sales of Mediasite presentation recorders of $1.9 million in 3Q05, up from $1.7 million in 2Q05, and $959,000 in 3Q04.

Customer support fees of $248,000 in 3Q05, up from $110,000 in 3Q04, and $177,000 in 2Q05. Customer support fees are becoming an important contributor to earnings. The company also reported other income of $72,000 in other revenues in 3Q05, similar to $85,000 in 3Q04. Total revenues for the quarter were $2.2 million in 3Q05, well ahead of $1.2 million in 3Q04, but below our estimate of $2.6 million for the quarter. We were optimistic on revenues from sales of the company's products, positively surprised by higher customer support fees, and on target for other income.

As management anticipated, gross margin continued to expand to 64.3% in 3Q05, up from 61.1% in 3Q04, though down from 67.6% in 2Q05. Management attributes a portion of the year-over-year increase in gross margin to be due to higher levels of customer support fees. We attribute the decline from 2Q05 to 3Q05 partially due to selling out its remaining stock of its popular ML units to be replaced by lighter and more durable ML units (SOFO still sold 1.5:1 ML unit to each rack unit). We credit compliment management with the sale of inventory rather than writing off the older units.

Total operating expenses were $2.5 million in 3Q05, compared to $2.3 million in 3Q04. Operating expense in 3Q05 was below our estimate of $2.7 million. Management continues to maintain a solid grip on operating expenses considering the company's rapid sales growth. Management's success is partially due to lower professional fees and credits.

SOFO reported a net loss of $1.1 million in 3Q05, or a loss of $0.03 per share. Earnings performance in the quarter improved upon a net loss of $1.6 million in 3Q04, or a loss of $0.05 per share. Results were in line with management's earlier guidance. Results for the quarter were reasonably close to our estimated net loss of $897,000. We anticipate the minor shortfall could partially be attributed to the change-over of ML recorders to the updated version.

SOFO's balance sheet remains strong despite the decline in cash to $4.5 million at the end of 3Q05, compared to $7.6 million at the end of fiscal 2004. The cash burn rate declined to under $900,000 in 3Q05, from about $1.5 million in 3Q04. Accounts receivable are nearly unchanged from 2Q05 and management reports that DSOs are under control. Despite rapid growth, payables have not increased and the company remains debt free.

Management Guidance:

We believe the combination of the factors listed above, and healthy market interest in the company's products, has increased management's confidence to offer improved guidance. They forecast revenues of $3 million in 4Q05 (representing a 38% increase from 3Q05 to 4Q05). They anticipate a net loss of $0.01 per share in 4Q05, and notably, are comfortable enough to extend guidance an additional quarter, to predict breaking-even in 1Q06. In addition, in 4Q05 they are planning for gross margins in the upper 60% level and operating expenses to remain flat. We have a high degree in the confidence of management's guidance and find it very interesting that they have characterized the upcoming third quarter as a "pivotal quarter." Should sales growth of its recorder units increase exponentially, as opposed to linearly as they did over the last several quarters, this may indeed come to pass.

Our Model:

Companies experiencing rapid growth in early phases of adoption of product introduction often experience "lumpiness" in revenues. This effect on earnings may further be exacerbated by investment in personnel to support growth or other one-time expenses. While most companies in these early stages of product introduction may suffer hardship, it would appear that SOFO management is executing there strategy and methodically building upon years of progress. This leads us to concur with management guidance which suggests a "hockey stick" growth pattern taking shape at the end of this fiscal year.

We now estimate a loss of $0.13 per share in fiscal 2005, and income of $0.17 and $0.56 per share in fiscal 2006 and 2007, respectively. This is slightly below our previous estimate following the end of 2Q05 of a loss of $0.11 per share in fiscal 2005, and income of $0.20 and $0.60 per share in fiscal 2006 and 2007, respectively. Favorable results in 2Q05, management initiatives, and improved guidance have increased our confidence for reaching breaking even in 1Q06.

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 18x our earnings estimate for fiscal 2006. Given the stock valuation, improving financial performance and our anticipation of additional investor interest through the end of 1Q06, we are increasing our rating to a **Strong Buy** rating from Buy.

Risks:

We are reducing our risk rating to **Moderate** from High. Though an unprofitable company in the early stages of development may merit a more cautious rating, the growing acceptance for the company's product, coupled with a strong balance sheet and cash position, and management's delivering on guidance inclines us to assign a less critical risk rating.

Sonic Foundry, Inc.
September FYE

	1Q05A Dec. -03	2Q05A Mar.-04	3Q05A Jun.-04	4Q05E Sept.-04	1Q06E Dec.-05	2Q06E Mar.-05	3Q06E Jun.-05	4Q06E Sept.-05	2004A	2005E	2006E	2007E
Income Statement												
Revenues												
Mediasite revenues	$1,339	$1,665	$1,855	$2,750	$3,750	$4,850	$6,050	$8,400	$3,443	$7,609	$21,850	$40,900
Customer support fees	189	177	248	302	394	513	669	962	425	916	2,416	4,889
Other	63	224	72	72	72	74	74	75	545	431	295	309
Total revenues	1,591	2,066	2,175	3,124	4,216	5,437	6,793	9,437	4,413	8,956	24,561	46,098
Cost of goods sold	536	669	776	969	1,307	1,686	2,106	2,926	1,759	2,950	7,614	14,290
Gross profit	1,055	1,397	1,399	2,156	2,909	3,752	4,687	6,512	2,654	6,007	16,947	31,808
Operating expenses												
Selling and marketing expenses	1,231	1,133	1,415	1,500	1,575	1,625	1,700	1,850	3,826	5,279	6,675	8,500
General and administrative expenses	815	771	650	670	700	730	760	840	2,826	2,906	2,980	3,600
Product development expenses	455	459	458	460	490	500	510	530	1,609	1,832	2,020	2,180
Total operating expense	2,501	2,363	2,523	2,630	2,765	2,855	2,970	3,220	8,261	10,017	11,675	14,280
Operating income	(1,446)	(966)	(1,124)	(474)	144	897	1,717	3,292	(5,607)	(4,010)	5,272	17,528
Other income (expense)	46	25	59	30	25	26	27	29	99	160	106	122
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0
Income (loss) before income taxes	(1,400)	(941)	(1,065)	(444)	169	923	1,744	3,321	(5,508)	(3,850)	5,378	17,650
Provision for income taxes	0	0	0	0	0	0	0	0	0	0	0	0
Net income (continuing operations)	(1,400)	(941)	(1,065)	(444)	169	923	1,744	3,321	(5,508)	(3,850)	5,378	17,650
Earnings per share (continuing operations)	$(0.05)	$(0.03)	$(0.03)	$(0.01)	$0.01	$0.03	$0.06	$0.11	$(0.19)	$(0.12)	$0.17	$0.57
Diluted shares	29,966	30,162	30,480	30,500	30,650	30,800	30,950	31,300	29,457	30,277	30,875	31,038
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%	35.7%	31.0%	31.0%	31.0%	31.0%	31.0%	39.9%	32.9%	31.0%	31.0%
Gross profit	66.3%	67.6%	64.3%	69.0%	69.0%	69.0%	69.0%	69.0%	60.1%	67.1%	69.0%	69.0%
Selling and marketing expenses	77.4%	54.8%	65.1%	48.0%	37.4%	29.9%	25.0%	19.6%	86.7%	58.9%	27.2%	18.4%
General and administrative expenses	51.2%	37.3%	29.9%	21.4%	16.6%	13.4%	11.2%	8.9%	64.0%	32.4%	12.1%	7.8%
Product development expenses	28.6%	22.2%	21.1%	14.7%	11.6%	9.2%	7.5%	5.6%	36.5%	20.5%	8.2%	4.7%
Total operating expense	157.2%	114.4%	116.0%	84.2%	65.6%	52.5%	43.7%	34.1%	187.2%	111.8%	47.5%	31.0%
Operating income	-90.9%	-46.8%	-51.7%	-15.2%	3.4%	16.5%	25.3%	34.9%	-127.1%	-44.8%	21.5%	38.0%
Other income (expense)	2.9%	1.2%	2.7%	1.0%	0.6%	0.5%	0.4%	0.3%	2.2%	1.8%	0.4%	0.3%
Net income (continuing operations)	-88.0%	-45.5%	-49.0%	-14.2%	4.0%	17.0%	25.7%	35.2%	-124.8%	-43.0%	21.9%	38.3%
Sales/share (ttm)	$0.17	$0.21	$0.24	$0.30	$0.38	$0.49	$0.64	$0.96	$0.04	$0.15	$0.79	$1.46

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
Goodawill & 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

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.
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9. The Subject Company is paying a fee for the arrangement of institutional road introductions and other awareness building services.
10. This report was prepared exclusively for the benefit of the institutional investor audience and may or may not receive compensation from that audience directly or in soft dollar arrangements.
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.

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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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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