



BEACON ROCK RESEARCH

JANUARY 3, 2007
RESEARCH NOTE

www.beaconrockresearch.com

Disclosures 1,2,3,4

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

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

Mike Niehuser, 503-307-3188

mniehuser@beaconrockresearch.com

Non-Media Companies Turning to Online Video

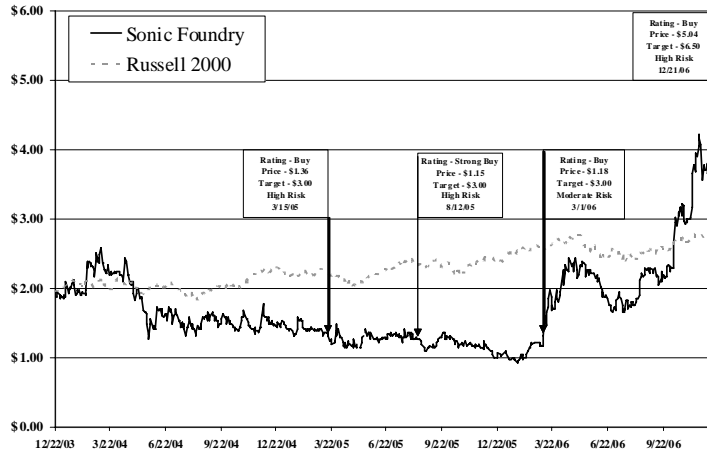
The Wall Street Journal article "Firms Take a Cue From YouTube" (1/2/07, B3) bodes well for Sonic Foundry Inc. (NasdaqNM: SOFO) in 2007. The article draws attention to corporations looking to video on the Internet to communicate to employees and customers. While this trend started well before YouTube, the acquisition by Google Inc. (Nasdaq: GOOG) has warmed investors to the possibilities of video over the Internet.

The article quotes one estimate of the market for broadband video-service providers growing to \$1.97 billion in 2011 from \$237 million in 2006. The article offers positive experiences of large non-media companies leveraging their message to employees and customers. It also touches on fragmentation of providers groping with challenges of providing video over the Internet. The article is silent on the future costs of archival and retrieval of growing volumes of material.

Sonic Foundry has produced an efficient production-to-viewer solution with large numbers of repeat buyers in its higher education segment. With the addition of advanced search capabilities we suspect that the company may cement its position in its niche of accommodating serious video or rich media content over the Internet. With increasing libraries of video and rich media, corporations may be expected to look for high-quality and cost-effective means to record, view, and archive increasing volumes of important proprietary content.

Increased attention by investors to this growing segment may be expected to lead to higher sustained levels of valuation multiples for Sonic Foundry. On a fundamental level, higher sales to the corporate segment may smooth seasonality of Sonic Foundry's annual revenues (we are not anticipating this to occur in the company's first quarter of its 2007 fiscal year). It may also lead to increased opportunities for Sonic Foundry to locate additional distribution or revenue opportunities.

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.



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 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.

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 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.

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.