SONIC FOUNDRY INC
Form 10-K
January 12, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal period ended September 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 000-30407
SONIC FOUNDRY, INC.
(Exact name of registrant as specified in its charter)

MARYLAND   39-1783372
(State or other jurisdiction of incorporation or organization)   (I.R.S. Employer Identification No.)
222 W. Washington Ave, Madison, WI 53703   (608) 443-1600
(Address of principal executive offices)   (Issuer's telephone number)
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common stock par value $0.01 per share
Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities
Act.   Yes ¨   No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the
Act.   Yes ¨   No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes ý   No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained
herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   Yes ý   No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if
any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§
232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to
submit and post such files).   Yes ý   No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a
small reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated
filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨   Accelerated filer ¨

Non-accelerated filer ¨   Smaller reporting company x

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition
period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the
Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes ¨   No ý

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately $19,284,000.

The number of shares outstanding of the registrant's common equity was 4,458,075 as of December 29, 2017.

1

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement for the 2018 Annual Meeting of Stockholders are incorporated by reference into Part III. A definitive Proxy Statement pursuant to Regulation 14A will be filed with the Commission no later than January 28, 2018.

2

Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2017

TABLE OF CONTENTS

3

Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2017

This annual report on Form 10-K (this "Report") contains statements that are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and its rules and regulations (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, and its rules and regulations (the "Exchange Act"). When used in this Report, the words "anticipate", "expect", "plan", "believe", "seek", "estimate" and similar expressions are intended to identify such forward-looking statements. These are statements that relate to future periods and include, but are not limited to, statements about the features, benefits and performance of our Rich Media products, our ability to introduce new product offerings and increase revenue from existing products, expected expenses including those related to selling and marketing, product development and general and administrative, our beliefs regarding the health and growth of the market for our products, anticipated increase in our customer base, expansion of our products functionalities, expected revenue levels and sources of revenue, expected impact, if any, of legal proceedings, the adequacy of liquidity and capital resources, and expected growth in business. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, market acceptance for our products, our ability to attract and retain customers and distribution partners for existing and new products, our ability to control our expenses, our ability to recruit and retain employees, the ability of distribution partners to successfully sell our products, legislation and government regulation, shifts in technology, global and local business conditions, our ability to effectively maintain and update our products and service portfolio, the strength of competitive offerings, the prices being charged by those competitors, and the risks discussed elsewhere herein. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

PART I

ITEM 1. BUSINESS

Who We Are

Sonic Foundry, Inc. (NASDAQ: SOFO) (the "Company") is the trusted global leader for video capture, management and webcasting solutions in education, business and government. Mediasite transforms communications, training, education and events for more than 4,700 customers in over 65 countries. Sonic Foundry is a leader in Aragon Research's Globe™ for Video Content Management, winner of Frost & Sullivan's Global Market Share Leadership Award in Lecture Capture Solutions for seven consecutive years, a leader in Forrester's Enterprise Video Platforms and Webcasting Wave™ and a challenger in Gartner's Magic Quadrant™ for enterprise video content management.

Sonic Foundry, Inc. was founded in 1991, incorporated in Wisconsin in March 1994 and merged into a Maryland corporation of the same name in October 1996. Our executive offices are located at 222 West Washington Ave., Madison, Wisconsin 53703 and our telephone number is (608) 443-1600. Our Sonic Foundry International B.V. ("Sonic Foundry International") (formerly Media Mission B.V.) office is located in the Netherlands, and our Mediasite K.K. ("Mediasite KK" or "MSKK") office is located in Japan. Our corporate website is www.sonicfoundry.com. In the "Investors" section of our website we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports required to be filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after the filing of such reports with the Securities and Exchange Commission.

Challenges We Address

Every organization faces a fundamental need to share information and communicate efficiently. Universities and colleges connect instructors with students to educate and prepare the next generation. Businesses strive for effective

communication and collaboration among employees to provide value to customers. Government agencies must keep partners, stakeholders and constituents informed to operate effectively. And yet, communication and e-learning challenges remain, including how to:

•Improve learners' academic and professional success
•Keep geographically-dispersed audiences and mobile teams connected
•Boost productivity and overall organizational knowledge
•Reduce logistical and financial impacts of day-to-day communications

Sonic Foundry Solutions
Sonic Foundry transforms the way organizations share and use information with these video solutions:

Mediasite Video Platform
Mediasite Video Platform is a scalable on-premises solution to publish, stream, manage, search and analyze all video. With Mediasite Video Platform, enterprises and education institutions:
•Stream live and on-demand video to any device

4

Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2017

- Create an enterprise or campus YouTube with Mediasite Showcase
- Automatically publish video to their learning management system (LMS), content management system (CMS), training portal or any website
- Deepen engagement and improve learning with polls, ask-a-question, surveys and other interactive tools
- Search everything with fully indexed audio, video and slide content
- Monitor who is watching what videos when to measure learner engagement and outcomes
- Centrally manage and secure any video

Mediasite Video Cloud
Mediasite Video Cloud is a secure, reliable SaaS (Software as a Service) solution offering the same capabilities as Mediasite Video Platform to publish, stream, manage, search and analyze all video. Customers conveniently host and manage all of their content with Mediasite Video Cloud, or use as needed for large events to divert heavy viewing traffic from their on-premises Mediasite Video Platform. Our co-located and high availability data center and experienced team successfully manage customers' cloud-based video streaming in secure, fault-tolerant environment.

Mediasite Capture Solutions
Valuable knowledge and expertise is shared every minute, but what's the best way to capture that knowledge before it evaporates into thin air? Mediasite provides flexible options to record and upload any video-based content from anywhere.

- My Mediasite: My Mediasite makes it a snap for instructors, employees and students to create great looking videos, screencasts and slideshows from their computers or mobile devices. From demos and video training to flipped classes, lectures and assignments, everything to record, upload, manage and publish personal videos is in one simple-to-use tool, requiring no pro video skills.
- Mediasite RL Recorders: The RL Series of built-in room appliances uses schedule-based capture and advanced audio/video integration to fully automate video and content recording in lecture halls, training rooms, simulation labs and auditoriums. Instructors and speakers teach and present as they are most comfortable, free from technology worries and confident that everything they say and show is captured.
- Mediasite RL Mini: Our latest video capture solution, the Mini, provides the automation and high-quality capture Mediasite is known for in a compact, affordable device, ensuring even more students never miss a lecture. With the Mini, there's no need for AV in the room. Instructors simply plug in their laptop and camera and start teaching. The plug-and-play device makes it easy to build or expand an automated lecture capture programs in community colleges, vocational-tech schools, small departments and even K12 classrooms.
- Mediasite Catch: Our latest video capture solution, Mediasite Catch, provides a scalable, economical solution to extend video capture to any classrooms on campus, even if they're not equipped with extensive audio/video capabilities. Combining the reliability of Mediasite's recorder-based scheduling automation with the affordability and simplicity of podium-based software, Mediasite Catch provides faculty a worry-free classroom recording experience.
- Mediasite ML Recorders: Anyone can be a video producer with the ML Series of portable recording solutions to capture and stream broadcast-quality video. Designed for on-the-go webcasting, hybrid events, guest speakers and conferences, Mediasite ML's lightweight design moves easily from location to location and can be set up and ready to record in only a few minutes.
- Mediasite Join: Real-time video is how today's best teams, businesses and schools collaborate, exchange ideas and get things done. But too often great ideas, subject matter expertise and important details are forgotten or left behind when a video call ends. Mediasite Join automatically records video and web conferences, transforming them into valuable, searchable video on demand. As a cloud service, it's the easiest way to capture and preserve any video call or meeting.

Mediasite Events

Mediasite Events is a leading global provider of live and on-demand webcasting services for conferences, hybrid events and high-profile broadcasts, supplying turnkey streaming solutions for hundreds of events each year. Fortune 500 companies, universities, associations, sporting events and charitable organizations use Mediasite Events to produce high-quality online event experiences. With Mediasite Events, customers:

- Expand their audience reach by streaming to those that cannot attend in person
- Maximize event ROI by generating additional revenue streams from video recordings
- Differentiate themselves from competing events
- Bolster training and communication effectiveness with interactive video and audience engagement tools
- Build stronger teams and deepen morale
- Save travel time and money
- Improve retention and learning outcomes

5

Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2017

Mediasite Services
Organizations maximize their return on video with these additional Mediasite Services:

- Advanced Integration Services: The value of Mediasite grows when customers' video assets and streaming workflows seamlessly integrate with the systems that drive their online learning, training or communication strategies. Mediasite Advanced Integration Services provides the resources and expertise to incorporate Mediasite video creation, management and delivery processes into existing or planned application platforms, infrastructures and workflows. Leveraging Mediasite's open architecture and application programming interfaces (APIs), Sonic Foundry developers collaborate with customers to scope, design and implement a Mediasite solution tailored to their unique requirements.
- Installation Services: Sonic Foundry provides on-site consulting and installation services to help customers optimize deployments and efficiently integrate Mediasite within existing AV and IT infrastructures, processes and workflows.
- Training Services: Expert Sonic Foundry trainers provide the necessary knowledge transfer so organizations feel confident in using, managing and leveraging Mediasite's capabilities. On-site training is customized to specific requirements and skill levels, while online training provides convenient anytime access to a web-based catalog of training modules.

Mediasite Customer Care
Standard and Premium Customer Care plans give customers peace of mind knowing that they have access to expert technical skills at the level they need.

With a Mediasite Standard Customer Care plan, customers are entitled to:
- Software upgrades and updates for Mediasite Video Platform and Mediasite Capture Solutions
- Unlimited technical support assistance
- Mediasite Recorder hardware warranty extension
- Advanced Mediasite Recorder replacement
- Authorized access to the Mediasite Customer Care Portal for 24/7 case management, software downloads, documentation, the Mediasite Knowledge Base and other technical resources
- Authorized access to the Mediasite Community for online training videos, customer-exclusive webcasts, peer-to-peer best practice sharing and more

Premium Customer Assurance clients receive the most comprehensive access to Sonic Foundry's world-class technical expertise by selecting the services that are of greatest value to their organization. A customized Premium Plan includes everything in the Standard Plan, plus any combination of these services:
- Priority technical support with queue bypass and support case escalation
- Proactive Mediasite version administration and management
- Mediasite roadmap discussions with Sonic Foundry's executive team

Additionally, customers who add Mediasite Monitoring Service get near real time monitoring of all Mediasite assets, proactive incident notification and Sonic Foundry support response for critical issues, exceptions and anticipated issues that may impact day-to-day Mediasite operations.

Nearly all of our customers purchase a Customer Care plan when they purchase Mediasite Video Platform or Mediasite Capture Solutions.

Annual service contracts for Mediasite Video Cloud, include a Standard Customer Care plan.

What Sets Mediasite Apart?
For enterprises to maximize their return on video, it takes more than capturing, storing and streaming content. The true impact and power of video is realized when content is transformed into highly interactive learning experiences rich with searchable metadata and detailed viewing statistics. Mediasite provides:

- Complete platform addressing the entire video lifecycle - From content creation and delivery to retention and management. Mediasite's portfolio of video solutions provides customers maximum flexibility and scalability to develop a comprehensive enterprise video strategy.

- Interactive, consistent playback experiences across devices - Mediasite involves the viewer in their online video experience with polls, bookmarks, sharing, ask-a-question, resource links and more. Plus, Mediasite's consistent playback experience across all devices significantly reduces learning curves and accelerates adoption and content mastery.

6

Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2017

Auto-indexing and powerful video search - As a video search pioneer for over a decade, we have substantial experience in search precision. Mediasite SmartSearch automatically makes all videos as searchable as text, so keywords can be found anywhere - in audio, slides, handwriting, video or tags.

Deep viewership analytics - Mediasite's powerful video analytics and built-in reports show exactly who is watching what and when. It's the deep insight users need to understand viewing behaviors and engagement, to measure video's impact and value and make informed decisions.

Unmatched support network - Sonic Foundry and the growing Mediasite Community provide a reliable, collaborative support network for all Mediasite customers. Our worldwide network of field-based system engineers and responsive customer care ensure that customers have resources committed to their success. Plus, with nearly 2,000 active customers, the Mediasite Community is one of the most vibrant and growing user communities for video, webcasting, lecture capture and e-learning. Members share ideas and get feedback year-round from community experts through a private online portal, customer-exclusive webcasts and unrivaled networking and learning opportunities at the global Mediasite user conference and other regional customer events.

Sonic Foundry Solutions in Higher Education:
Among post-secondary institutions, Mediasite is used for all academic and campus environments, including:
- Lecture capture
- Flipped classroom instruction: students view lectures from home and use classroom time for discussion
- Blended, hybrid and distance learning
- Continuing education
- Campus YouTube
- Special events: commencement, guest speakers, sporting events, etc.
- Faculty training and development
- Student video projects
- Recruitment and admissions
- University business: leadership meetings, alumni relations, outreach

Higher education institutions consistently report that Mediasite:
- Improves student learning outcomes
- Keeps their institution competitive by supporting higher enrollment and/or tuition without new classrooms
- Empowers faculty with technology supporting new teaching pedagogies both in the classroom and online
- Boosts campus outreach, recruitment efforts and awareness of campus events
- Helps campuses manage, secure and search all campus video

To remain relevant, colleges and universities are striving to differentiate themselves through technical leadership as a means to attract tech-savvy students, while balancing their campus technology improvements with systems that faculty will embrace and adopt. As a result, the education market is restructuring and increasing investments around online learning.

Historically, graduate programs and STEM (science, technology, engineering and math)-oriented degree programs in schools of medicine, nursing, engineering or business have comprised the majority of our academic customer base. We are now experiencing heightened market demand for academic video within undergraduate and community college programs as well.

Frost & Sullivan analysts report that the academic lecture capture market is "characterized by seismic shifts in the technological demands of students, growing institutional adoption of online programs to increase student enrollment, the increasing use of multi-source video capture to enrich user experience, and deeper in-video metadata schema to improve searchability." Further, they estimate the lecture capture market is expected to grow at a compound annual growth rate (CAGR) of 20.6% from 2015 to 2022. (Global Lecture Capture Analysis report, 2016).

The visible integration of video-based learning into core university applications like learning management systems (LMSes) and the success of bundled online learning technology solutions are two healthy indicators for the widespread adoption of campus video. LMSes like Canvas by Instructure, Brightspace™, Blackboard®, Moodle and Sakai are ubiquitous in the education enterprise. As the foundation for e-learning, these systems are rapidly evolving to be students' single-source portal for all course-related materials including recorded lecture and assignment videos. Mediasite's packaged LMS integrations and support for the Learning Tools Interoperability (LTI) standard, address the need to make learning content accessible to students when and where they need it. Similarly, video management platforms are emerging as repositories for campus' media-centric content. These platforms provide additional opportunities through which to make Mediasite content accessible to faculty, staff and students.

7

Sonic Foundry, Inc.
Annual Report on Form 10-K
For the Year Ended September 30, 2017

Sonic Foundry Solutions in the Enterprise:
Executives, event planners and line-of-business managers for human resources, talent development, sales, marketing, and customer service are pushing for more video in their organizations to improve communication, collaboration and results.

Mediasite has numerous applications within medium to large corporate, healthcare and government enterprises:

In corporate enterprises it is used for:
• Executive communications: town hall meetings, all-hands meetings
• Workforce development: onboarding and training, HR communications, policy documentation
• Secure corporate YouTube
• Sales, marketing and customer support
• Investor relations: earnings calls, analyst briefings, annual reports
• Conferences and events: user group, sales and annual meetings

In health-related enterprises it is used for:
• Continuing medical education, medical conferences and seminars
• Grand rounds, simulations and procedural training
• Pharmaceutical and new product education
• Caregiver and patient education
• Emergency response coordination and public health announcements
• Research and collaboration

In government agencies it is used for:
• Training and compliance
• Inter- and intra-agency communications
• Legislative proceedings
• Constituent outreach, committee meetings, public safety announcements
•