

SONIC FOUNDRY INC  
Form DEF 14A  
January 28, 2008

## SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

**SONIC FOUNDRY, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**SONIC FOUNDRY, INC.**

**222 West Washington Avenue**

**Madison, Wisconsin 53703**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held March 6, 2008**

The Annual Meeting of Stockholders of **SONIC FOUNDRY, INC.**, a Maryland corporation ( Sonic ) will be held at the Monona Terrace Community and Convention Center, One John Nolen Drive, Madison, Wisconsin 53703 on March 6, 2008 at 9:00 a.m. local time, for the following purposes:

1. To elect two directors to hold office for a term of five years, and until their successors are duly elected and qualified.
  2. To vote on a Proposal to adopt the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan.
  3. To vote on a Proposal to adopt the 2008 Sonic Foundry Employee Stock Purchase Plan.
  4. To ratify the appointment of Grant Thornton LLP as our independent auditors for the fiscal year ending September 30, 2008.
  5. To transact such other business as may properly come before the meeting or any adjournments thereof.
- All the above matters are more fully described in the accompanying Proxy Statement.

Only holders of record of Common Stock at the close of business on January 11, 2008 are entitled to notice of, and to vote at, this meeting or any adjournment or adjournments thereof.

Please complete and return the enclosed proxy in the envelope provided or follow the instructions on the proxy card to authorize a proxy by telephone or over the Internet, **whether or not** you intend to be present at the meeting in person.

By Order of the Board of Directors,

Madison, Wisconsin  
January 28, 2008

Kenneth A. Minor  
Secretary

**If you cannot personally attend the meeting, it is earnestly requested that you promptly indicate your vote on the issues included on the enclosed proxy and date, sign and mail it in the enclosed self-addressed envelope, which requires no postage if mailed in the United States or, follow the instructions on the proxy card to authorize a proxy by telephone or over the Internet. Doing so will save us the expense of further mailings. If you sign and return your proxy card without marking choices, your shares will be voted in accordance with the recommendations of the Board of Directors.**



**SONIC FOUNDRY, INC.**

**222 W. Washington Avenue**

**Madison, Wisconsin 53703**

January 28, 2008

**PROXY STATEMENT**

The Board of Directors of Sonic Foundry, Inc., a Maryland corporation ( Sonic ), hereby solicits the enclosed proxy. Unless instructed to the contrary on the proxy, it is the intention of the persons named in the proxy to vote the proxies:

**FOR** the election of Monty R. Schmidt and Gary R. Weis as Directors for terms expiring in 2013; and

**FOR** the proposal to adopt the 2008 Sonic Foundry, Inc. Employee Stock Purchase Plan; and

**FOR** the proposal to adopt the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan; and

**FOR** the ratification of the appointment of Grant Thornton LLP as independent auditors of Sonic for the fiscal year ending September 30, 2008.

In the event that the nominee for director becomes unavailable to serve, which management does not anticipate, the persons named in the proxy reserve full discretion to vote for any other person who may be nominated. Proxies may also be authorized by telephone or over the Internet by following the instructions on the proxy card. Any stockholder giving a proxy may revoke the same at any time prior to the voting of such proxy. This Proxy Statement and the accompanying proxy are being mailed on or about January 30, 2008.

Each stockholder will be entitled to one vote for each share of Common Stock standing in his or her name on our books at the close of business on January 11, 2008 (the Record Date ). Only holders of issued and outstanding shares of Sonic s common stock as of the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting, including any adjournment or postponement thereof. On that date, we had outstanding and entitled to vote 35,568,836 shares of Common Stock, held by approximately 9,800 stockholders, of which approximately 9,400 were held in street name.

**QUORUM; VOTES REQUIRED**

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspector of elections appointed for the Annual Meeting and will determine whether or not a quorum is present. Where, as to any matter submitted to the stockholders for a vote, proxies are marked as abstentions (or stockholders appear in person but abstain from voting), such abstentions will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter and has not received instructions from the beneficial owner, which is known as a broker non-vote, those shares will not be considered as present and entitled to vote with respect to that matter; however, such shares will be considered present for purposes of a quorum. A majority of the shares of Common Stock issued, outstanding and entitled to vote at the Annual Meeting, present in person or represented by proxy, shall constitute a quorum at the Annual Meeting. The election of the Directors requires a plurality of the votes present and entitled to vote. The adoption of the Employee Stock Purchase Plan and the Non-Employee Directors Stock Option Plan requires the approval of a majority of the outstanding shares of Common Stock represented at the meeting and entitled to vote. The approval of the other proposals requires the affirmative vote of the holders of a majority of the votes cast at the Annual Meeting.

DATE, TIME AND PLACE OF ANNUAL MEETING

The Annual Meeting will be held on March 6, 2008 at 9:00 a.m. (Central time) at the Monona Terrace Community and Convention Center, One John Nolen Drive, Madison, Wisconsin 53703.

**PROPOSAL ONE: ELECTION OF DIRECTORS**

Our Amended and Restated Articles of Incorporation and Bylaws provide that the Board of Directors shall be divided into five classes, with each class having a five-year term. Directors are assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors, each class consisting, as nearly as possible, of one-fifth the total number of directors. Vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes may be filled by either the affirmative vote of the holders of a majority of the then-outstanding shares or by the affirmative vote of a majority of the remaining directors then in office, even if less than a quorum of the Board of the Directors. Newly created directorships resulting from any increase in the number of directors may, unless the Board of Directors determines otherwise, be filled only by the affirmative vote of the directors then in office, even if less than a quorum of the Board of Directors. A director elected by the Board of Directors to fill a vacancy (including a vacancy created by an increase in the number of directors) shall serve for the remainder of the full term of the class of directors in which the vacancy occurred and until such director's successor is elected and qualified.

Our Amended and Restated Articles of Incorporation provide that the number of directors, which shall constitute the whole Board of Directors, shall be fixed exclusively by one or more resolutions adopted from time to time by the Board of Directors. Our currently authorized number of directors is seven. The seats on the Board of Directors, currently held by Monty R. Schmidt and Gary R. Weis., are designated as Class V Board seats, with terms expiring as of the Annual Meeting. Mssrs. Schmidt and Weis will stand for re-election at this Annual Meeting.

Mssrs. Schmidt and Weis are currently Board members of Sonic who were previously elected by the stockholders. If elected at the Annual Meeting, Mssrs. Schmidt and Weis would serve until the 2013 Annual Meeting and until their successors are elected and qualified or until their earlier death, resignation or removal.

**Nominees for Director for a Five-Year term expiring on the 2013 Annual Meeting**

**Monty R. Schmidt**

Mr. Schmidt, age 43, has been our Chief Technology Officer since July 2003 and served as President from March 1994 to July 2003 and as a Director since February 1994. Throughout his tenure at Sonic Foundry, Mr. Schmidt has spearheaded a variety of engineering and strategic initiatives that have helped grow Sonic from the one person startup he founded in 1991. In addition to acting as an industry liaison, Mr. Schmidt is responsible for managing and facilitating technology development and utilization. Prior to joining Sonic, Mr. Schmidt served in software and hardware engineering capacities for companies in the medical and food service equipment industries. Mr. Schmidt has a B.S. degree in Electrical Engineering from the University of Wisconsin, Madison.

**Gary R. Weis**

Mr. Weis, age 60, has been a Director of Sonic since February 2004 and was President, Chief Executive Officer and a Director of Cometa Networks, a wireless broadband Internet access company from March 2003 to April 2004. From May 1999 to February 2003 he was Senior Vice President of Global Services at AT&T where he was responsible for one of the world's largest data and IP networks, serving more than 30,000 businesses and providing Internet access to more than one million individuals worldwide. While at AT&T, Mr. Weis also was CEO of Concert, a joint venture between AT&T and British Telecom. Previously, from January 1995 to May 1999 he was General Manager of IBM Global Services, Network Services. Mr. Weis served as a Director from March 2001 to February 2003 of AT&T Latin America, a facilities-based provider of telecom services in Brazil, Argentina, Chile, Peru and Columbia. Mr. Weis earned BS and MS degrees in Applied Mathematics and Computer Science at the University of Illinois, Chicago.

The election of a Director requires the approval of a plurality of the votes cast by holders of the shares of Sonic's common stock. Any shares not voted, whether by broker non-vote or otherwise, will have no impact on the outcome of the election.

**The Board of Directors unanimously recommends a vote FOR the election of Mssrs. Schmidt and Weis as Class V Directors.**

#### **DIRECTORS CONTINUING IN OFFICE**

##### **David C. Kleinman**

**Term Expires in 2009**

Mr. Kleinman, age 72, has been a Director of Sonic since December 1997 and has taught at the Graduate School of Business at the University of Chicago since 1971, where he is now Adjunct Professor of Strategic Management. Mr. Kleinman has been a Director (trustee) of the Acorn Funds since 1972 (of which he is also Chair of the Audit Committee, and a member of the Committee on Investment Performance and the Compliance Committee); a Director since 1984 of North Lime Holdings and its predecessor, Irex Corporation, a contractor and distributor of insulation materials (where he is Lead Director of the Board of Directors); and a Director since 1993 of Plymouth Tube Company, a manufacturer of metal tubing and metal extrusions (where he serves on the Audit Committee). From 1999 to 2006, he was a member of the Advisory Board of DSC Logistics, a logistics management and warehousing firm. From May 1997 to February 2004, Mr. Kleinman served as a Director of AT&T Latin America and predecessor companies, a facilities-based provider of telecom services in Brazil, Argentina, Chile, Peru and Columbia (where he was chair of the Audit Committee and a member of the Compensation Committee). From 1994 to 2005, he was a director of Wisconsin Paper and Products Company, a jobber of paper and paper products. From 1964 to 1971, Mr. Kleinman was a member of the finance staff of the Ford Motor Company.

##### **Paul S. Peercy**

**Term Expires in 2009**

Mr. Peercy, age 67, has been a Director of Sonic since February 2004. Since September 1999, Mr. Peercy has served as dean of the University of Wisconsin-Madison College of Engineering. Since 2001 Mr. Peercy has been a member of the National Academy of Engineering. In 2000, then-Wisconsin Governor Tommy Thompson named Mr. Peercy to the Wisconsin Technology and Entrepreneurship Council. From August 1995 to September 1999, Mr. Peercy served as president of SEMI/SEMATECH, an Austin, Texas-based non-profit consortium of more than 160 of the nation's suppliers to the semiconductor industry. Prior to that position he was director of Microelectronics and Photonics at Sandia National Laboratories in Albuquerque, New Mexico. He is the author or co-author of more than 175 technical papers and the recipient of two patents. Mr. Peercy is a Director and member of the audit and nominating and corporate governance committees of Bemis Company, Inc, a manufacturer of flexible packaging and pressure sensitive materials. Mr. Peercy received a BA degree in Physics from Berea College and MS and PhD degrees in Physics from the University of Wisconsin - Madison.

##### **Arnold B. Pollard**

**Term Expires in 2010**

Mr. Pollard, age 65, has been a Director of Sonic since December 1997. From 1993 until January 2002, he was the President and Chief Executive Officer of Chief Executive Group, which published Chief Executive magazine. For over 25 years, he has been President of Decision Associates, a management consulting firm specializing in organizational strategy and structure. Mr. Pollard has served as a director and a member of the audit and compensation committees of Delta Financial Corporation, a public company engaged in the business of home mortgage lending, since 2005. From 1989 to 1991, Mr. Pollard served as Chairman and Chief Executive Officer of Biopool International, a biodiagnostic public company focusing on blood related testing; and from 1972 to 1973, served as President and CEO of IDS, an information services company serving the savings bank market. He

previously served on the boards of GKN Corporation, Sentigen Holding Corp, Lillian Vernon Corp. and DEBE Systems Corp. From 1970 to 1973, Mr. Pollard taught at the Graduate School of Business at Columbia University where he was adjunct Professor of Decision Sciences. Mr. Pollard received a BS in Engineering Physics from Cornell University, and both an MS in Engineering Sciences and a PhD in Engineering-Economics Systems from Stanford University.

**Frederick H. Kopko, Jr.**

**Term Expires in 2011**

Mr. Kopko, age 52, has been our Secretary from April 1997 to February 2001 and has been a Director since December 1995. Mr. Kopko is a partner of the law firm of McBreen & Kopko, Chicago, Illinois, and has been a partner of that firm since January 1990. He has been a Director of Mercury Air Group, Inc. since 1992. Mr. Kopko received a B.A. degree in economics from the University of Connecticut, a J.D. degree from the University of Notre Dame Law School, and an M.B.A. degree from the University of Chicago.

**Rimas P. Buinevicius**

**Term Expires in 2012**

Mr. Buinevicius, age 45, has been our Chairman of the Board since October 1997 and Chief Executive Officer since January 1997. In addition to his organizational duties, Mr. Buinevicius is a recognized figure in the rich media industry focused on the convergence of technology, digital media and entertainment. Mr. Buinevicius joined Sonic in 1994 as General Manager and Director of Marketing. Prior to joining Sonic, Mr. Buinevicius spent the majority of his professional career in the fields of biomedical and industrial control research and development. Mr. Buinevicius earned an M.B.A. degree from the University of Chicago; a Master's degree in Electrical Engineering from the University of Wisconsin, Madison; and a Bachelor's degree in Electrical Engineering from the Illinois Institute of Technology, Chicago. Mr. Buinevicius is a recipient of Ernst and Young's Entrepreneur of the Year award.

## CORPORATE GOVERNANCE

### Director Independence

Through its listing requirements for companies with securities listed on the NASDAQ Global Market, the NASDAQ Stock Market (NASDAQ) requires that a majority of the members of our Board be independent, as defined under NASDAQ's rules. The NASDAQ rules have both objective tests and a subjective test for determining who is an independent director. The objective tests state, for example, that a director is not considered independent if he or she is an employee of the Company or has engaged in various types of business dealings with the Company. The subjective test states that an independent director must be a person who lacks a relationship that in the opinion of the Board would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has made a subjective determination as to each independent director that no relationship exists which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, the Board reviews information provided by the directors in an annual questionnaire with regard to each director's business and personal activities as they relate to the Company. Based on this review and consistent with NASDAQ's independence criteria, the Board has affirmatively determined that the following directors are independent: Gary R. Weis, David C. Kleinman, Paul S. Peercy and Arnold B. Pollard.

### Related Person Transaction

The Board has adopted a Related Person Transaction Policy (the Policy), which is a written policy governing the review and approval or ratification of Related Person Transactions, as defined in SEC rules.

Under the Policy, each of our directors and executive officers must notify the Chairman of the Audit Committee in writing of any potential Related Person Transaction involving such person or an immediate family member. The



Audit Committee will review the relevant facts and circumstances and will approve or ratify the transaction only if it determines that the transaction is in, or is not inconsistent with, the best interests of the Company. The Related Party Transaction must then be approved by the independent directors. In determining whether to approve or ratify a Related Person Transaction, the Audit Committee and the independent directors may consider, among other things, the benefits to the Company; the impact on the director's independence (if the Related Person is a director or an immediate family member); the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally.

There were no Related Person Transactions in the fiscal year ended September 30, 2007 ( Fiscal 2007 ).

### **Board Structure and Meetings**

The Board met six times during Fiscal 2007. The Board also acted by written consent from time to time. All directors attended at least 75% of the total number of Board meetings and committee meetings on which they serve (during the period in which each director served). In addition, NASDAQ marketplace rules contemplate that the independent members of our Board will meet during the year in separate closed meetings referred to as executive sessions without any employee director or executive officer present. Executive sessions were usually held after regularly scheduled Board meetings during 2007.

The Board of Directors has four standing committees, the Audit Committee, the Executive Compensation Committee, the Nominating Committee and the Strategy Committee.

Sonic has a standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Messrs. Kleinman (chair), Weis and Peercy serve on the Audit Committee. Sonic's Board of Directors has determined that all members of Sonic's Audit Committee are independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act and as defined under Nasdaq listing standards. The Audit Committee provides assistance to the Board in fulfilling its oversight responsibility including: (i) internal and external financial reporting, (ii) risks and controls related to financial reporting, and (iii) the internal and external audit process. The Audit Committee is also responsible for recommending to the Board the selection of our independent public accountants and for reviewing all related party transactions. The Audit Committee met five times in Fiscal 2007. A copy of the charter of the Audit Committee is available on Sonic's website and is attached hereto as Exhibit A.

Sonic's Board of Directors has determined that, due to his affiliation with the Graduate School of Business at the University of Chicago, and due to his serving as a director on numerous company boards, along with his other academic and business credentials, Mr. Kleinman has the requisite experience and applicable background to meet Nasdaq standards requiring financial sophistication of at least one member of the audit committee. Sonic's Board of Directors has also determined that neither Mr. Kleinman nor any other member of the Audit Committee is an audit committee financial expert as defined by applicable SEC regulations.

The Executive Compensation Committee consists of Messrs. Kleinman (chair), Weis and Peercy. The Board of Directors has determined that all of the members of the Executive Compensation Committee are independent as defined under Nasdaq listing standards. The Executive Compensation Committee makes recommendations to the Board with respect to salaries of employees, the amount and allocation of any incentive bonuses among the employees, and the amount and terms of stock options to be granted to executive officers. The Executive Compensation Committee met nine times in Fiscal 2007. A copy of the charter of the Executive Compensation Committee is available on Sonic's website.

The Nominating Committee consists of Messrs. Pollard (chair) and Kleinman. The Board of Directors has determined that all of the members of the Nominating Committee are independent as defined under Nasdaq listing standards. The purpose of the Nominating Committee is to evaluate and recommend candidates for election as directors, make recommendations concerning the size and composition of the Board of Directors, develop specific criteria for director independence, and assess the effectiveness of the Board of Directors. Our Board of Directors has adopted a charter for

the Nominating Committee, which is available on Sonic's website. The Nominating Committee will review all candidates in the same manner regardless of the source of the recommendation. Stockholder recommendations of candidates for Board membership will be considered when submitted with sufficient detail including the candidate's name, principal occupation during the past 5 years, listing of directorships, a statement that such nominee has consented to the submission of the nomination, amount of common stock of Sonic held by the nominee and qualification addressed to Corporate Secretary, Sonic Foundry, Inc., 222 W. Washington Ave., Madison, WI 53703

The Strategy Committee consists of Messrs. Pollard (chair) and Buinevicius. The Strategy Committee meets regularly with senior management, an outside advisory council and other industry experts in order to develop and refine Sonic's business strategy. The Strategy Committee met in person 5 times and held numerous informal and telephonic meetings in fiscal 2007.

#### **DIRECTORS COMPENSATION**

Our directors, who are not also our full-time employees, receive an annual retainer of \$20,000 in addition to a fee of \$1,500 for attendance at each meeting of the Board of Directors and \$1,000 per committee meeting attended, other than the chair of our Audit committee, Mr. Kleinman, who receives \$2,000 per Audit Committee meeting attended. In addition, the chair of our strategy committee receives compensation of \$5,000 per month totaling \$60,000 in 2007 for his role in managing the activities of the strategy committee. The cash compensation paid to the five non-employee directors combined in Fiscal 2007 was \$222,600. When traveling from out-of-town, the members of the Board of Directors are also eligible for reimbursement for their travel expenses incurred in connection with attendance at Board meetings and Board Committee meetings. Directors who are also employees do not receive any compensation for their participation in Board or Board Committee meetings.

Pursuant to the 1997 Non-Employee Directors' Stock Option Plan, (which expired in December 2007, the 1997 Directors Stock Option Plan ) we granted to each non-employee director who was reelected or who continued as a member of the Board of Directors at each annual stockholders meeting a stock option to purchase 20,000 shares of Common Stock. Further, the chair of our Audit Committee receives an additional stock option grant to purchase 5,000 shares of Common Stock per year pursuant to Sonic's Non Qualified Stock Option Plan. The exercise price of each stock option granted was equal to the market price of Common Stock on the date the stock option was granted. Stock options issued under the 1997 Directors' Stock Option Plan vested fully on the first anniversary of the date of grant and expire after ten years from date of grant. An aggregate of 900,000 shares were reserved for issuance under the 1997 Directors Stock Option Plan. In addition, Mr. Pollard received an additional \$55,000 cash compensation for his services on the Strategy Committee and, in December 2007, was awarded an option to purchase 68,000 shares of Common Stock under Sonic's Non Qualified Stock Option Plan.

If any change is made in the stock subject to the 1997 Directors Stock Option Plan, or subject to any option granted thereunder, the 1997 Directors Stock Option Plan and options outstanding thereunder will be appropriately adjusted as to the type(s), number of securities and price per share of stock subject to such outstanding options.

The options and warrants set forth above have an exercise price equal to the fair market value of the underlying common stock on the date of grant. The term of all such options is ten years.

The following table summarizes cash and equity compensation provided our non-employee directors during the fiscal year ended September 30, 2007.

Name	Fees Earned Or Paid In		Stock Awards	Option Awards	Non-Stock Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
	Cash							
	(\$)(1)	(b)	(\$)(c)	(\$)(2)	(\$)(e)	(\$)(f)	(\$)(g)	(\$)(h)
(a) David C. Kleinman	\$ 46,650			\$ 37,591				\$ 84,241
Frederick H. Kopko	27,500			30,073				57,573
Paul S. Peercy	38,550			30,073				68,623
Arnold B. Pollard	74,950			69,068				144,018
Gary R. Weis	34,950			30,073				65,023

- (1) The amount reported in column (b) is the total of the annual retainer fee, the strategic advisory chair retainer fee and meeting attendance fees.
- (2) The amount reported in column (d) is the dollar amount recognized for financial reporting purposes for the fiscal year ended September 30, 2007 in accordance with FAS 123(R). Each director received an option award of 20,000 shares on March 15, 2007 at an exercise price of \$3.76 with a grant date fair value of \$39,200. In addition, Mr. Kleinman received a grant of 5,000 shares on March 15, 2007 at an exercise price of \$3.76 with a grant date fair value of \$9,800 in connection with his position as chair of the audit committee and Mr. Pollard received a grant of 20,085 shares on January 15, 2007 at an exercise price of \$4.26 with a grant date fair value of \$38,965 in connection with his position as chair of the strategy committee.

**PROPOSAL 2: PROPOSAL TO ADOPT THE**

**SONIC FOUNDRY 2008 DIRECTORS STOCK OPTION PLAN**

The Board of Directors recommends adoption of the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan (the Directors Stock Option Plan ).

The purpose of the Directors Stock Option Plan is to promote the interests of Sonic and its stockholders by strengthening Sonic's ability to attract and retain experienced and knowledgeable non-employee directors and to encourage them to acquire an increased proprietary interest in Sonic. The Directors Stock Option Plan is intended to replace the 1997 Directors Stock Option Plan, adopted December 1997 and which expired December 2007. The 1997 Directors Stock Option Plan provided for the grant of up to 900,000 stock options, of which 800,000 were granted under the plan, 640,000 are currently outstanding and 540,000 are exercisable.

Consistent with the 1997 Directors Stock Option Plan, the Directors Stock Option Plan will be administered by the Board of Directors. The Directors Stock Option Plan will provide for a grant of an option to each non-employee director 1) upon his initial appointment to the Board, 2) to each non-employee director who is reelected or who is continuing in offices as a member of the Board after the adjournment of each annual meeting and 3) in the Board's discretion, other grants to one or more Non-Employee Directors from time to time. Each option grant pursuant to 1) or 2) above is effective to purchase 20,000 shares of Common Stock at an exercise price equal to the fair market value on the date of grant. Other option grants will be in amounts as determined by the Board.

Common Stock that may be issued under the Directors Stock Option Plan pursuant to options shall not exceed in the aggregate Five Hundred Thousand (500,000) shares of Common Stock.

*Summary of the Directors Stock Option Plan*

The following is a summary of the material provisions of the Directors Stock Option Plan. This summary is qualified in its entirety by reference to the specific provisions of the Directors Stock Option Plan, the full text of which is attached to this Proxy Statement as Exhibit B.

All options granted under the Directors Stock Option Plan are non- statutory not intended to qualify under Section 422 of the Code, as amended. The federal income tax consequences are similar to those described above with respect to the grant of a non-qualified stock option.

Payment of the option exercise price may be in cash, by delivery of previously owned Common Stock, by any other legally permissible means acceptable to the Board at the time of the grant of the option (including cashless exercise, subject to applicable legal restrictions), or by a combination of such means.

If an optionee ceases to be a director before an option vests, the option will terminate, other than in the case of death, disability or resignation required as a condition of a change in control, in which case all outstanding options granted as of the date of termination shall vest and immediately become exercisable. Each option expires ten years from the date of its grant or earlier in certain circumstances such as death or disability. Options are not transferable at any time except in certain circumstances such as transfers to family members. Options that are forfeited or terminated will again be available for grant. Shares may be authorized but unissued, currently held or reacquired shares. The Board of Directors may amend, terminate or suspend the Plan at any time.

*Plan Benefits*

Under the 1997 Directors Stock Option Plan, each of the five non-employee directors received options to purchase 20,000 shares of Common Stock upon initial appointment to the Board and each non-employee director has received and will continue to receive options to purchase an additional 20,000 shares of Common Stock after the adjournment of each annual stockholders meeting. However, no dollar value is assigned to the options because their exercise price is the fair market value of the common stock on the date of grant.

*General*

The adoption of the Directors Stock Option Plan requires the approval of a majority of the outstanding shares of Common Stock represented at the meeting and entitled to vote. Shares may be voted for or withheld from this matter. Under Securities and Exchange Commission regulations regarding stockholder approval of stock option plans, shares withheld from voting on this matter will be treated for all purposes relevant to this matter as being present at the meeting and entitled to vote and thus will have the same effect as a vote of such shares against this matter. Shares entitled to cast votes on this matter at the meeting which are the subject of a broker non-vote on this matter will be treated for quorum purposes relevant to this matter as being present at the meeting and entitled to vote but not be so treated in determining whether a majority or other required percentage of the shares present and entitled to vote on the matter has been obtained.

The Board of Directors unanimously recommends a vote FOR Proposal 2, adopting the 2008 Sonic Foundry Non-Employee Directors Stock Option Plan.

### EXECUTIVE OFFICERS OF SONIC

Our executive officers, who are appointed by the Board of Directors, hold office for one-year terms or until their respective successors have been duly elected and have qualified. There are no family relationships between any of the executive officers of Sonic.

**Rimas P. Buinevicius** is our Chairman of the Board of Directors and Chief Executive Officer. (See Nominee for Director .)

**Darrin T. Coulson**, age 42, has been our Chief Operating Officer since November 2006, our Senior Vice President of Worldwide Field Operations from August 2005 to November 2006 and served as Regional Sales Manager from November 2004 to August 2005. From May 2003 to November 2004, Mr. Coulson was President of BxVideo, a rich media services company he founded. From March 1994 to November 2001, Mr. Coulson served in various capacities for FORE Systems and its successor corporation, Marconi PLC, including Executive Vice President and General Manager of Global Services and President of the Americas Enterprise Business division, a \$700 million enterprise.

**Monty R. Schmidt** is our Chief Technology Officer and a Director. (See Directors Continuing in Office .)

**Kenneth A. Minor**, age 45, has been our Chief Financial Officer since June 1997, Assistant Secretary from December 1997 to February 2001 and Secretary since February 2001. From September 1993 to April 1997, Mr. Minor was employed as Vice President and Treasurer for Fruehauf Trailer Corporation, a manufacturer and global distributor of truck trailers and related after market parts and service where he was responsible for financial, treasury and investor relations functions. Prior to 1993, Mr. Minor served in various senior accounting and financial positions for public and private corporations as well as the international accounting firm of Deloitte Haskins and Sells. Mr. Minor is a certified public accountant and has a B.B.A. degree in accounting from Western Michigan University.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows information known to us about the beneficial ownership of our Common Stock as of January 15, 2008, by each stockholder known by us to own beneficially more than 5% of our Common Stock, each of our executive officers named in the Summary Compensation Table ( Named Executive Officers ), each of our directors, and all of our directors and executive officers as a group. Unless otherwise noted, the mailing address for these stockholders is 222 West Washington Avenue, Madison, Wisconsin 53703.

Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting or investment power with respect to shares. Shares of common stock issuable upon the exercise of stock options or warrants exercisable within 60 days after January 15, 2008, which we refer to as Presently Exercisable Options, are deemed outstanding for computing the percentage ownership of the person holding the options but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. The inclusion of any shares in this table does not constitute an admission of beneficial ownership for the person named below.

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Based on currently available Schedules 13D and 13G filed with the SEC, we do not know of any beneficial owners of more than 5% of our Common Stock, other than listed below.

Name of Beneficial Owner(1)	Number of Shares of Class Beneficially Owned	Percent of Class(2)
<b>Common Stock</b>		
Monty R. Schmidt (3)	3,322,938	9.3%
Rimas P. Buinevicius(4)	2,512,409	6.8
Arnold B. Pollard(5)		
733 Third Avenue		
New York, NY 10017	610,830	1.7
Darrin T. Coulson(6)	440,755	1.2
Frederick H. Kopko, Jr.(7)		
20 North Wacker Drive		
Chicago, IL 60606	366,275	1.0
Kenneth A. Minor(8)	353,941	1.0
David C. Kleinman(9)		
1101 East 58th Street		
Chicago, IL 60637	240,000	*
Gary R. Weis(10)		
P.O. Box 272		
Deerfield, IL 60015	120,000	*
Paul S. Percy(10)		
1415 Engineering Dr		
Madison, WI 53706	100,400	*
All Executive Officers and Directors as a Group (9 persons)(11)	8,067,548	20.9%

\* less than 1%

- (1) Sonic believes that the persons named in the table above, based upon information furnished by such persons, have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them.
- (2) Applicable percentages are based on 35,568,836 shares outstanding, adjusted as required by rules promulgated by the Securities and Exchange Commission.
- (3) Includes 179,802 shares subject to Presently Exercisable Options.

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- (4) Includes 1,180,000 shares subject to Presently Exercisable Options.
- (5) Consists of 610,830 shares subject to Presently Exercisable Options.
- (6) Includes 183,333 shares subject to Presently Exercisable Options.
- (7) Includes 80,000 shares subject to Presently Exercisable Options.
- (8) Includes 331,941 shares subject to Presently Exercisable Options.
- (9) Consists of 240,000 shares subject to Presently Exercisable Options.
- (10) Includes 100,000 shares subject to Presently Exercisable Options.
- (11) Includes an aggregate of 3,005,906 Presently Exercisable Options.

## Compensation Discussion and Analysis

### *Introduction*

This Compensation Discussion and Analysis describes our compensation strategy, policies, programs and practices for the executive officers identified in the Summary Compensation Table. Throughout this proxy statement, we refer to these individuals, who serve as our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Chief Technology Officer as the executive officers.

The Compensation Committee ( Committee ) establishes and oversees our compensation and employee benefits programs and approves the elements of total compensation for the executive officers. The day-to-day design and administration of our retirement and employee benefit programs available to our employees are handled by our Human Resources and Finance Department employees. The Committee is responsible for reviewing these programs with management and approving fundamental changes to them.

### *Overview and Objectives of our Executive Compensation Program*

The compensation program for our executive officers is designed to attract, motivate, reward and retain highly qualified individuals who can contribute to Sonic's growth with the ultimate objective of improving stockholder value. Our compensation program consists of several forms of compensation: base salary, annual bonus, long-term incentives and limited perquisites and benefits.

Base salary and annual bonus are cash-based while long-term incentives consist of stock option awards. The Committee does not have a specific allocation goal between cash and equity-based compensation or between annual and long-term incentive compensation. Instead, the Committee relies on the process described in this discussion and analysis in its determination of compensation levels and allocations for each executive officer.

The Committee does not utilize objective guidelines or formulae, performance targets or short-term changes in our stock price to determine the elements and levels of compensation for our executive officers. Instead, it relies upon its collective judgment as applied to the challenges confronting Sonic, together with advice from independent consultants, information provided by Sonic and independent sources, and the recommendations of our Chief Executive Officer. The Committee also uses subjective information when considering the credentials, length of service, experience, consistent performance, and available competitive alternatives of our executive officers. The Committee receives and reviews a variety of information throughout the year to assist it in directing the executive compensation program. Throughout the year, the Committee reviews financial reports comparing Sonic's performance on a year-to-date basis versus budget and at each Board meeting, the executive officers present an operating report.

The recommendations of the Chief Executive Officer play a significant role in the compensation-setting process. The Chief Executive Officer provides the Committee with an annual overall assessment of Sonic's achievements and performance, his evaluation of individual performance and his recommendations for annual compensation, bonus and long-term incentive awards. The Committee has discretion to accept, reject or modify the Chief Executive Officer's recommendations.

The Committee determines the compensation for each executive officer in an executive session.

### *Market Competitiveness*

The Committee's target is for total cash compensation to average between the 50th and 75th percentile of published compensation data derived from two sources: (i) a peer group of companies that are competitors either in our industry, or for key talent, or with similar financial characteristics; and (ii) published market survey data for companies within our revenue range. Given competitive recruiting pressures, the Committee retains its discretion to deviate from this target under appropriate circumstances. The Committee periodically receives updates of the published compensation data.



*Pay for Performance*

The Committee believes that both long and short term compensation of executive officers should correlate to Sonic's overall financial performance. Incentive payouts will be larger with strong performance and smaller if Sonic's financial results decline. From time to time, extraordinary Board-approved initiatives in a fiscal year, such as a restructuring, acquisition, or divestiture, are considered by the Committee in its overall evaluation of Sonic's performance.

*Competitive Benchmarking/Peer Group Analysis*

The Committee reviewed market data from the American Electronics Association (AeA) in various size and industry stratifications similar to that of Sonic.

The second source of compensation data came from a peer group of thirty-one public companies that we consider competitors in our market for sales, or for key talent, or with similar financial or other characteristics such as size. The companies in the peer group ranged in market capitalization between \$50 million and \$250 million, had fewer than 200 employees, revenues between \$13 million and \$35 million and exhibited rapid growth in revenue in excess of 30%.

*Components of Executive Compensation*

*Base Salary*

The Committee seeks to pay the executive officers a competitive base salary in recognition of their job responsibilities for a publicly held company. As noted above, the target compensation range for an executive's total cash compensation (salary and bonus) is between the 50th and 75th percentile of the market data reviewed by the Committee.

As part of determining annual increases, the Committee also considers the Chief Executive Officer's recommendation regarding individual performance as well as internal equitable considerations.

In evaluating individual performance, the Committee considers initiative, leadership, tenure, experience, skill set for the particular position, knowledge of industry and business, and execution of strategy in placing the individual within the range outlined.

On February 2, 2007, the Committee approved base salary increases effective January 1, 2007 for Mr. Buinevicius from \$300,000 to \$315,000; for Mr. Minor from \$192,000 to \$221,000 and for Mr. Schmidt from \$220,000 to \$246,000. Following the fiscal year, on December 4, 2007, the Committee approved base salary increases effective immediately for three of the executive officers, of 5%. The salary for Mr. Buinevicius was increased to \$331,000 from \$315,000; the salary for Mr. Schmidt was increased to \$258,000 from \$246,000 and Mr. Minor's salary was increased to \$232,000 from \$221,000. Upon recommendation of Mr. Buinevicius that compensation of Mr. Coulson should be highly weighted toward incentives, the Committee took no action regarding the base compensation of Mr. Coulson leaving it at \$250,000. After its review of all sources of market data as described above, the Committee believes that the adjusted base salaries and the bonuses described below are within its targeted range for total cash compensation.

*Bonus*

The Committee typically targets an annual cash bonus as a percentage of total cash compensation within the 50th to 75th percentile of market data as noted above. Recognizing that Sonic's internal budgets are based on pre-established financial goals, the evaluation of individual performance reflects a discretionary assessment by the

Committee of each officer's contribution during the year. The Committee may consider factors such as general economic conditions, acquisitions, divestitures, or restructuring initiatives that may not have been contemplated when the financial budgets were developed. To aid in this evaluation, the Chief Executive Officer provides an overview of Sonic's financial metrics and performance, new product introductions, strategic initiatives, and investor relations activities for the year.

On December 4, 2007, the Committee approved bonuses for the executive officers based on the recommendations of the Chief Executive Officer and the Committee's assessment of individual performance and contribution to the improved financial performance of Sonic for fiscal 2007. Mr. Buinevicius, Mr. Schmidt and Mr. Minor received bonuses of \$60,000 each. Mr. Coulson receives bonuses quarterly based upon achieving predetermined targets for product and services billings set at the beginning of the fiscal year. Total bonus amounts paid to Mr. Coulson during fiscal 2007 totaled \$79,484.

#### *Stock Options and Restricted Stock*

The Committee has a long-standing practice of providing long-term incentive compensation grants to the executive officers. The Committee believes that such grants, in the form of stock options, help align our executive officers' interests with Sonic's stockholders. All stock option and restricted stock awards are granted under either our 1995 Stock Option Plan or the 1999 Non-Qualified Plan ( "Employee Plans" ).

The Committee reviews option grant recommendations by the Chief Executive Officer for each executive officer, but retains full discretion to accept, reject or revise each recommendation. The Committee's policy is to grant options on the date it approves them. The exercise price is determined in accordance with the terms of the Employee Plan and cannot be less than the Fair Market Value, as defined in the Plan, of Sonic's common stock. The Committee typically grants options once a year, but may grant options to newly hired executives at other times.

In making its determinations, the Committee considers the number of options or shares owned by the executive officers.

In December 2006, the Committee awarded stock options to purchase 75,000 shares to Mr. Coulson as described in the "Grant of Plan-Based Awards" table in this Proxy Statement. The Committee considered the significant ownership position of shares of common stock and stock options of the other executive officers in determining not to grant additional options at that time. In December 2007, the Committee awarded options to purchase 200,000, 120,000, 50,000 and 50,000 shares to Messrs. Coulson, Minor, Buinevicius and Schmidt, respectively.

#### *Health and Welfare Benefits*

Our officers are covered under the same health and welfare plans, including our 401(k) plan, as salaried employees.

#### *Employment Agreements*

We entered into employment agreements with Rimantas P. Buinevicius and Monty R. Schmidt on substantially the same terms as the prior agreements in January 2001. The employment agreements automatically renew every two years for successive two year terms and were last automatically renewed on January 1, 2007. The salaries of each of Messrs. Buinevicius and Schmidt are subject to increase each year at the discretion of the Board of Directors. Messrs. Buinevicius and Schmidt are also entitled to incidental benefits of employment under the agreements. Each of the employment agreements provides that if (i) Sonic Foundry breaches its duty under such employment agreement, (ii) the employee's status or responsibilities with Sonic Foundry has been reduced, (iii) Sonic Foundry fails to perform its obligations under such employment agreement, or (iv) after a Change in Control of Sonic Foundry, Sonic Foundry's financial prospects have significantly declined, the employee may terminate his employment and receive all salary and bonus owed to him at that time, prorated, plus three times the highest annual salary and bonus paid to him in any of the three years immediately preceding the termination. If the employee becomes disabled, he may terminate his employment

and receive all salary owed to him at that time, prorated, plus a lump sum equal to the highest annual salary and bonus paid to him in any of the three years immediately preceding the termination. Pursuant to the employment agreements, each of Messrs. Buinevicius and Schmidt has agreed not to disclose our confidential information and not to compete against us during the term of his employment agreement and for a period of two years thereafter. Such non-compete clauses may not be enforceable, or may only be partially enforceable, in state courts of relevant jurisdictions.

A Change in Control is defined in the employment agreements to mean: (i) a change in control of a nature that would have to be reported in our proxy statement; (ii) Sonic Foundry is merged or consolidated or reorganized into or with another corporation or other legal person and as a result of such merger, consolidation or reorganization less than 75% of the outstanding voting securities or other capital interests of the surviving, resulting or acquiring corporation or other legal person are owned in the aggregate by our stockholders immediately prior to such merger, consolidation or reorganization; (iii) Sonic Foundry sells all or substantially all of its business and/or assets to any other corporation or other legal person, less than 75% of the outstanding voting securities or other capital interests of which are owned in the aggregate by our stockholders, directly or indirectly, immediately prior to or after such sale; (iv) any person (as the term person is used in Section 13(d) (3) or Section 14(d) (2) of the Securities Exchange Act of 1934 (the Exchange Act)) had become the beneficial owner (as the term beneficial owner is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of 25% or more of the issued and outstanding shares of our voting securities; or (v) during any period of two consecutive years, individuals who at the beginning of any such period constitute our directors cease for any reason to constitute at least a majority thereof unless the election, or the nomination or election by our stockholders, of each new director was approved by a vote of at least two-thirds of such directors then still in office who were directors at the beginning of any such period.

We entered into employment agreements with Kenneth A. Minor and Darrin T. Coulson in October 2007. The salaries of each of Messrs. Minor and Coulson are subject to increase each year at the discretion of the Board of Directors. Messrs. Minor and Coulson are also entitled to incidental benefits of employment under the agreements. Each of the employment agreements provide that a cash severance payment be made upon termination, other than for cause, equal to the highest cash compensation paid in any of the last three fiscal years immediately prior to termination in addition to immediate vesting of all previously unvested common stock and stock options. Further, Messrs. Minor and Coulson have the right to voluntarily terminate their employment, and receive the same severance arrangement detailed above following (i) any person becoming a beneficial owner of stock of Sonic Foundry representing 50% or more of the total voting power of Sonic Foundry's then outstanding stock; or, (ii) Sonic Foundry is acquired by another entity through the purchase of substantially all of its assets or securities and following such acquisition, Rimas Buinevicius does not remain as Chief Executive Officer and Chairman of the Board of Directors of Sonic Foundry or the acquisition is without the written consent of the Board of Directors of Sonic Foundry; or (iii) Sonic Foundry is merged with another entity, consolidated with another entity or reorganized in a manner in which any person is or becomes a beneficial owner of stock of the surviving entity representing 50% or more of the total voting power of the surviving entity's then outstanding stock; and Messrs. Minor or Coulson is demoted without cause or their duties are substantially altered. Pursuant to the employment agreements, each of Messrs. Minor and Coulson has agreed not to disclose our confidential information and not to compete against us during the term of his employment agreement and for a period of one year thereafter. Such non-compete clauses may not be enforceable, or may only be partially enforceable, in state courts of relevant jurisdictions.

For illustrative purposes, if Sonic terminated the employment of Messrs. Buinevicius, Schmidt, Coulson, and Minor (not for cause) on September 30, 2007 or if Messrs. Buinevicius, Schmidt, Coulson, and Minor elected to terminate their employment for constructive termination as defined in the employment agreements on September 30, 2007, and a change of control as defined in the employment agreements had occurred, Sonic would be obligated to pay \$1,529,000, \$1,165,000, 328,000 and \$312,000 to of Messrs. Buinevicius, Schmidt, Coulson, and Minor, respectively. In addition, any non-vested rights of Messrs. Buinevicius, Schmidt, Coulson, and Minor under the Employee Plans, would vest as of the date of employment termination. The value of the accelerated vesting of the options under these circumstances would be less than \$1,000 for Messrs. Buinevicius, Schmidt and Minor and \$95,000 Mr. Coulson.

*Personal Benefits*

Our executives receive a limited number of personal benefits certain of which are considered taxable income to them and which are described in the footnotes to the section of this Proxy Statement entitled Summary Compensation Table .

*Internal Revenue Code Section 162(m)*

Internal Revenue Code Section 162(m) limits the ability of a public company to deduct compensation in excess of \$1 million paid annually to each of the Chief Executive Officer and each of the other executive officers named in the Summary Compensation Table. There are exemptions from this limit, including compensation that is based on the attainment of performance goals that are established by the Committee and approved by the Company stockholders. No executive officer was affected by this limitation in fiscal 2007.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of Sonic has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Proxy Statement.

COMPENSATION COMMITTEE

David C. Kleinman, Chair

Gary R. Weis

Paul S. Peercy

**Summary Compensation**

The following table sets forth the compensation of our principal executive officer, our principal financial officer and our other two executive officers for the fiscal year ended September 30, 2007.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
		(\$)	\$(1)	(\$)	\$(2)	(\$)	(\$)	\$(3)	(\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Rimas P. Buinevicius									
Chairman and									
Chief Executive Officer	2007	309,534	60,000						