# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## SONIC FOUNDRY INC

### Form: 10-Q

### Date Filed: 2020-08-13

Corporate Issuer CIK: 1029744

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly period ended June 30, 2020**

**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 West Washington Ave, Madison, WI 53703**
**(Address of principal executive offices)**
**(608) 443-1600**
**(Registrant's telephone number including area code)**

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 ☑ 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 ☑ 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 | ☑ |
| | | 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.

Yes ☐ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

State the number of shares outstanding of each of the issuer's common equity as of the last practicable date:

| Class | Outstanding July 31, 2020 |
|---|---|
| Common Stock, $0.01 par value | 7,922,044 |

## PART I. FINANCIAL INFORMATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. For a more complete discussion of accounting policies and certain other information, refer to the Company's annual report filed on Form 10-K for the fiscal year ended September 30, 2019.

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**Item 1**

**Sonic Foundry, Inc.**
**Condensed Consolidated Balance Sheets**
**(in thousands, except for share data)**
**(Unaudited)**

| | June 30, 2020 | September 30, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 6,442 | $ 4,295 |
| Accounts receivable, net of allowances of $159 & $135 | 5,438 | 6,532 |
| Inventories | 544 | 558 |
| Investment in sales-type lease, current | 147 | 163 |
| Capitalized commissions, current | 354 | 464 |
| Prepaid expenses and other current assets | 1,111 | 972 |
| Total current assets | 14,036 | 12,984 |
| Property and equipment: | | |
| Leasehold improvements | 1,122 | 1,121 |
| Computer equipment | 6,644 | 5,610 |
| Furniture and fixtures | 1,326 | 1,233 |
| Total property and equipment | 9,092 | 7,964 |
| Less accumulated depreciation and amortization | 7,056 | 6,396 |
| Property and equipment, net | 2,036 | 1,568 |
| Other assets: | | |
| Investment in sales-type lease, long-term | 13 | 134 |
| Capitalized commissions, long-term | 89 | 106 |
| Right-of-use assets under operating leases | 2,335 | — |
| Other long-term assets | 413 | 388 |
| **Total assets** | $ 18,922 | $ 15,180 |
| **Liabilities and stockholders' deficit** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,544 | $ 843 |
| Accrued liabilities | 1,122 | 2,216 |
| Unearned revenue | 9,558 | 9,610 |
| Current portion of finance lease obligations | 137 | 194 |
| Current portion of operating lease obligations | 1,364 | — |
| Current portion of notes payable and warrant debt, net of discounts | 1,255 | 968 |
| Total current liabilities | 14,980 | 13,831 |
| Long-term portion of unearned revenue | 1,760 | 1,842 |
| Long-term portion of finance lease obligations | 110 | 179 |
| Long-term portion of operating lease obligations | 989 | — |
| Long-term portion of notes payable and warrant debt, net of discounts | 2,485 | 5,429 |
| Derivative liability, at fair value | 125 | 9 |
| Other liabilities | 141 | 143 |
| Total liabilities | 20,590 | 21,433 |
| Commitments and contingencies | | |
| Stockholders' deficit: | | |
| Preferred stock, $.01 par value, authorized 500,000 shares; none issued | — | — |
| 9% Preferred stock, Series A, voting, cumulative, convertible, $.01 par value (liquidation preference of $1,000 per share), authorized 4,500 shares; zero shares issued and outstanding, at amounts paid in | — | — |
| 5% Preferred stock, Series B, voting, cumulative, convertible, $.01 par value (liquidation preference at par), authorized 1,000,000 shares, none issued | — | — |
| Common stock, $.01 par value, authorized 10,000,000 shares; 7,934,760 and 6,749,359 shares issued, respectively and 7,922,044 and 6,736,643 shares outstanding, respectively | 79 | 67 |
| Additional paid-in capital | 208,914 | 203,735 |
| Accumulated deficit | (209,958) | (209,340) |
| Accumulated other comprehensive loss | (534) | (546) |
| Treasury stock, at cost, 12,716 shares | (169) | (169) |
| Total stockholders' deficit | (1,668) | (6,253) |
| **Total liabilities and stockholders' deficit** | $ 18,922 | $ 15,180 |

See accompanying notes to the condensed consolidated financial statements.

**Sonic Foundry, Inc.**
**Condensed Consolidated Statements of Operations**
**(in thousands, except for share and per share data)**
**(Unaudited)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Revenue:** | | | | |
| Product and other | $ 2,744 | $ 4,221 | $ 7,612 | $ 7,768 |
| Services | 5,173 | 5,847 | 16,987 | 17,799 |
| Total revenue | 7,917 | 10,068 | 24,599 | 25,567 |
| **Cost of revenue:** | | | | |
| Product and other | 1,199 | 1,558 | 3,188 | 2,854 |
| Services | 971 | 1,123 | 3,566 | 3,673 |
| Total cost of revenue | 2,170 | 2,681 | 6,754 | 6,527 |
| **Gross margin** | 5,747 | 7,387 | 17,845 | 19,040 |
| **Operating expenses:** | | | | |
| Selling and marketing | 2,980 | 3,785 | 9,433 | 11,564 |
| General and administrative | 1,030 | 1,609 | 3,647 | 4,492 |
| Product development | 1,511 | 1,849 | 4,600 | 5,617 |
| Total operating expenses | 5,521 | 7,243 | 17,680 | 21,673 |
| **Income (loss) from operations** | 226 | 144 | 165 | (2,633) |
| **Non-operating expenses:** | | | | |
| Interest expense, net | (140) | (276) | (621) | (657) |
| Other expense, net | (106) | (63) | (150) | (66) |
| Total non-operating expenses | (246) | (339) | (771) | (723) |
| Income (loss) before income taxes | (20) | (195) | (606) | (3,356) |
| Income tax benefit (expense) | 127 | 36 | (12) | (77) |
| **Net income (loss)** | $ 107 | $ (159) | $ (618) | $ (3,433) |
| Dividends on preferred stock | — | (24) | | (122) |
| **Net income (loss) attributable to common stockholders** | $ 107 | $ (183) | $ (618) | $ (3,555) |
| **Income (loss) per common share** | | | | |
| – basic | $ 0.01 | $ (0.03) | $ (0.09) | $ (0.64) |
| – diluted | $ 0.01 | $ (0.03) | $ (0.09) | $ (0.64) |
| Weighted average common shares | | | | |
| – basic | 7,399,545 | 6,122,098 | 6,972,924 | 5,528,999 |
| – diluted | 7,830,293 | 6,122,098 | 6,972,924 | 5,528,999 |

See accompanying notes to the condensed consolidated financial statements

**Sonic Foundry, Inc.**
**Condensed Consolidated Statements of Comprehensive Income (Loss)**
**(in thousands)**
**(Unaudited)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Net income (loss)** | $ 107 | $ (159) | $ (618) | $ (3,433) |
| Foreign currency translation adjustment | 15 | 89 | 12 | 134 |
| **Comprehensive income (loss)** | $ 122 | $ (70) | $ (606) | $ (3,299) |

See accompanying notes to the condensed consolidated financial statements.

**Sonic Foundry, Inc.**
**Condensed Consolidated Statements of Stockholders' Deficit**
**(in thousands)**
**(Unaudited)**

| | Preferred stock | Common stock | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive loss | Receivable for common stock issued | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, September 30, 2018** | $ 1,651 | $ 51 | $ 200,130 | $ (207,419) | $ (676) | $ (26) | $ (169) | $ (6,458) |
| Cumulative effect of ASC 606 adoption Note 6 | — | — | — | 1,691 | — | — | — | 1,691 |
| Adjusted balance, October 1, 2018 | 1,651 | 51 | 200,130 | (205,728) | (676) | (26) | (169) | (4,767) |
| Stock compensation | — | — | 203 | — | — | — | — | 203 |
| Issuance of common stock and warrants | — | 10 | 1,100 | — | — | — | — | 1,110 |
| Warrants issued in connection with subordinated notes payable | — | — | 674 | — | — | — | — | 674 |
| Conversion of preferred stock | (1,773) | 6 | 1,767 | — | — | — | — | — |
| Preferred stock dividends | 122 | — | (122) | — | — | — | — | — |
| Foreign currency translation adjustment | — | — | — | — | 134 | — | — | 134 |
| Net loss | — | — | — | (3,433) | — | — | — | (3,433) |
| **Balance, June 30, 2019** | $ — | $ 67 | $ 203,752 | $ (209,161) | $ (542) | $ (26) | $ (169) | $ (6,079) |

| | Preferred stock | Common stock | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive loss | Receivable for common stock issued | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, March 31, 2019** | $ 1,187 | $ 53 | $ 201,490 | $ (209,002) | $ (631) | $ (26) | $ (169) | $ (7,098) |
| Stock compensation | — | — | (17) | — | — | — | — | (17) |
| Issuance of common stock and warrants | — | 10 | 1,096 | — | — | — | — | 1,106 |
| Conversion of preferred stock | (1,210) | 4 | 1,206 | — | | — | — | — |
| Preferred stock dividends | 23 | — | (23) | — | — | — | — | — |
| Foreign currency translation adjustment | — | — | — | — | 89 | — | — | 89 |
| Net loss | — | — | — | (159) | — | — | — | (159) |
| **Balance, June 30, 2019** | $ — | $ 67 | $ 203,752 | $ (209,161) | $ (542) | $ (26) | $ (169) | $ (6,079) |

**Sonic Foundry, Inc.**
**Condensed Consolidated Statements of Stockholders' Deficit**
**(in thousands)**
**(Unaudited)**

| | Preferred stock | Common stock | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive loss | Receivable for common stock issued | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, September 30, 2019** | $ — | $ 67 | $ 203,735 | $ (209,340) | $ (546) | $ — | $ (169) | $ (6,253) |
| Stock compensation | — | — | 104 | — | — | — | — | 104 |
| Issuance of common stock | — | 1 | 81 | — | — | — | — | 82 |
| Conversion of related-party debt to common stock | — | 11 | 4,994 | — | — | — | — | 5,005 |
| Foreign currency translation adjustment | — | — | — | — | 12 | — | — | 12 |
| Net loss | — | — | — | (618) | — | — | — | (618) |
| **Balance, June 30, 2020** | $ — | $ 79 | $ 208,914 | $ (209,958) | $ (534) | $ — | $ (169) | $ (6,673) |

| | Preferred stock | Common stock | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive loss | Receivable for common stock issued | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, March 31, 2020** | $ — | $ 68 | $ 203,884 | $ (210,065) | $ (549) | $ — | $ (169) | $ (6,831) |
| Stock compensation | — | — | 18 | — | — | — | — | 18 |
| Issuance of common stock | — | — | 18 | — | — | — | — | 18 |
| Conversion of related-party debt to common stock | — | 11 | 4,994 | — | — | — | — | 5,005 |
| Foreign currency translation adjustment | — | — | — | — | 15 | — | — | 15 |
| Net income | — | — | — | 107 | — | — | — | 107 |
| **Balance, June 30, 2020** | $ — | $ 79 | $ 208,914 | $ (209,958) | $ (534) | $ — | $ (169) | $ (6,673) |

**Sonic Foundry, Inc.**
**Condensed Consolidated Statements of Cash Flows**
**(in thousands)**
**(Unaudited)**

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| **Operating activities** | | |
| Net loss | $ (618) | $ (3,433) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Amortization of other intangibles | 204 | 170 |
| Depreciation and amortization of property and equipment | 644 | 748 |
| Loss on sale of fixed assets | — | 8 |
| Provision for doubtful accounts - including financing receivables | 31 | 31 |
| Provision for inventory reserve | 90 | — |
| Loss on conversion of related party debt to equity | 26 | — |
| Stock-based compensation expense related to stock options and warrants | 104 | 203 |
| Stock issued for board of director fees | 61 | 246 |
| Deferred loan interest to related party | 322 | — |
| Remeasurement loss (gain) on derivative liability | 116 | (12) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,077 | 660 |
| Financing receivables | — | 87 |
| Inventories | (76) | 75 |
| Investment in sales-type lease | 136 | — |
| Capitalized commissions | 127 | 138 |
| Prepaid expenses and other current assets | (128) | 280 |
| Right-of-use assets under operating leases | 208 | — |
| Operating lease obligations | (234) | — |
| Other long-term assets | (24) | — |
| Accounts payable and accrued liabilities | (749) | (294) |
| Other long-term liabilities | (2) | (46) |
| Unearned revenue | (153) | (1,339) |
| Net cash provided by (used in) operating activities | 1,162 | (2,478) |
| **Investing activities** | | |
| Purchases of property and equipment | (683) | (373) |
| Net cash used in investing activities | (683) | (373) |
| **Financing activities** | | |
| Proceeds from notes payable | 2,778 | 5,500 |
| Proceeds from lines of credit | — | 9,199 |
| Payments on notes payable | (984) | (583) |
| Payments on lines of credit | — | (9,636) |
| Payment of debt issuance costs | — | (110) |
| Proceeds from issuance of preferred stock and common stock | 2 | 864 |
| Proceeds from exercise of common stock options | 18 | — |
| Payments on finance lease obligations | (162) | (193) |
| Net cash provided by (used in) financing activities | 1,652 | 5,041 |
| Changes in cash and cash equivalents due to changes in foreign currency | 16 | 8 |
| Net increase (decrease) in cash and cash equivalents | 2,147 | 2,198 |
| Cash and cash equivalents at beginning of year | 4,295 | 1,189 |
| Cash and cash equivalents at end of period | $ 6,442 | $ 3,387 |
| Supplemental cash flow information: | | |
| Interest paid | $ 114 | $ 425 |
| Income taxes paid, foreign | 141 | 237 |
| Non-cash financing and investing activities: | | |
| Property and equipment financed by finance lease or accounts payable | 478 | 45 |
| Debt discount and warrant | — | 679 |
| Preferred stock dividends paid in additional shares | — | 122 |
| Conversion of preferred shares to common shares | — | 1,772 |
| Conversion of related party debt to common shares | 5,005 | — |

See accompanying notes to the condensed consolidated financial statements.

**Sonic Foundry, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**June 30, 2020**
**(Unaudited)**

## 1. Basis of Presentation and Significant Accounting Policies

***Financial Statements***

The accompanying condensed consolidated financial statements are unaudited and have been prepared on a basis substantially consistent with the Company's audited financial statements as of and for the year ended September 30, 2019 included in the Company's Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the Company's financial position, results of operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature. Operating results for the nine month period ended June 30, 2020 are not necessarily indicative of the results that might be expected for the year ending September 30, 2020.

***Financing Receivables***

Financing receivables consist of customer receivables resulting from the sale of the Company's products and services, primarily software and long-term customer support contracts, and are presented net of allowance for losses. The Company has a single portfolio consisting of fixed-term receivables, which is further segregated into two classes based on type of product and lease.

Amounts receivable of $526 thousand at September 30, 2019 primarily represents sales of perpetual software licenses to a single international distributor on invoices outstanding for product delivered from March 2016 through June 2017.

The Company generally determines its allowance for losses on financing receivables at the customer class level by considering a number of factors, including the length of time financing receivables are past due, historical and anticipated experience, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. The Company writes off financing receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for financing receivable losses. Interest is not accrued on past due receivables. There was an allowance of $526 thousand at September 30, 2019.

During the period ended March 31, 2020 it was determined that the financing receivable would not be collected. Therefore, both the financing receivable of $526 thousand and the corresponding reserve of $526 thousand were written off.

***Investment in Sales-Type Lease***

The Company has entered into sales-type lease arrangements with certain customers, consisting of recorders leased with terms ranging from 3-5 years.

Investment in sales-type leases consists of the following (in thousands) as of June 30, 2020:

| | | |
|---|---|---|
| Investment in sales-type lease, gross: | | |
| 2021 | $ | 148 |
| 2022 | | 13 |
| Gross investment in sales-type lease | | 161 |
| Less: Unearned income | | (1) |
| Total investment in sales-type lease | $ | 160 |
| | | |
| Current portion of total investment in sales-type lease | $ | 147 |
| Long-term portion of total investment in sales-type lease | | 13 |
| | $ | 160 |

***Inventory***

Inventory consists of raw materials and supplies used in the assembly of Mediasite recorders and finished units. Inventory of completed units and spare parts are carried at the lower of cost or net realizable value, with cost determined on a first-in, first-out basis. An obsolescence reserve has been established to account for slow moving inventory.

Inventory consists of the following (in thousands):

| | June 30, 2020 | September 30, 2019 |
|---|---|---|
| Raw materials and supplies | $ 235 | $ 163 |
| Finished goods | 399 | 395 |
| Less: Obsolescence reserve | (90) | — |
| | $ 544 | $ 558 |

***Asset Retirement Obligation***

An asset retirement obligation ("ARO") associated with the retirement of a tangible long-lived asset is recognized as a liability in the period in which it is incurred or becomes determinable, with an associated increase in the carrying amount of the related long-term asset. The cost of the tangible asset, including the initially recognized asset retirement cost, is depreciated over the useful life of the asset. As of June 30, 2020 and September 30, 2019, the Company has recorded a liability of $131 thousand and $129 thousand, respectively, for retirement obligations associated with returning the MSKK leased property to the respective lessors upon the termination of the lease arrangement. Asset retirement obligations are included in other-long term liabilities on the condensed consolidated balance sheets.

***Fair Value of Financial Instruments***

In determining the fair value of financial assets and liabilities, the Company currently utilizes market data or other assumptions that it believes market participants would use in pricing the asset or liability in the principal or most advantageous market, and adjusts for non-performance and/or other risk associated with the Company as well as counterparties, as appropriate. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1 Inputs: Unadjusted quoted prices which are available in active markets for identical assets or liabilities accessible to the Company at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The hierarchy gives the highest priority to Level 1, as this level provides the most reliable measure of fair value, while giving the lowest priority to Level 3.

**Financial Liabilities Measured at Fair Value on Recurring Basis**

The fair value of the bifurcated conversion feature represented by the warrant derivative liability associated with the PFG debt is measured at fair value on a recurring basis based on a Black Scholes option pricing model with assumptions for stock price, exercise price, volatility, expected term, risk free interest rate and dividend yield similar to those described for share-based compensation which were generally observable (Level 2).

Financial liabilities measured at fair value on a recurring basis are summarized below (in thousands):

| June 30, 2020 | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| Derivative liability | $ — | $ 125 | $ — | $ 125 |

| September 30, 2019 | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| Derivative liability | $ — | $ 9 | $ — | $ 9 |

The gain or loss related to the fair value remeasurement on the derivative liability is included in the other (expense) line on the condensed consolidated statements of operations.

**Financial Liabilities Measured at Fair Value on a Nonrecurring Basis**

The initial fair values of PFG debt and warrant debt (see Note 4) were based on the present value of expected future cash flows and assumptions about current interest rates and the creditworthiness of the Company (Level 3).

The Mr. Mark Burish ("Mr. Burish") warrant was measured at fair value using a Black Scholes model and the remaining fair value was allocated to the related Mr. Burish note purchase agreement (see Note 4) which management believes materially approximates the fair value based on calculating the present value of expected future cash flows (Level 3). The non-recurring fair value measurements were performed as of the date of issuance of the note purchase agreement and warrant. The discount is being amortized over the life of the related debt.

**Financial Instruments Not Measured at Fair Value**

The Company's other financial instruments consist primarily of cash and cash equivalents, accounts receivable, investment in sales-type lease, financing receivables, accounts payable and debt instruments and capital lease obligations. The book values of cash and cash equivalents, accounts receivable, investment in sales-type lease, and accounts payable are considered to be representative of their respective fair values due their short term nature. The carrying value of debt including the current portion, approximates fair market value as the variable and fixed rate approximates the current market rate of interest available to the Company.

***Legal Contingencies***

When legal proceedings are brought or claims are made against the Company and the outcome is uncertain, we are required to determine whether it is probable that an asset has been impaired or a liability has been incurred. If such impairment or liability is probable and the amount of loss can be reasonably estimated, the loss must be charged to earnings.

No legal contingencies were recorded or were required to be disclosed for the three or nine months ended June 30, 2020 or 2019.

***Stock Based Compensation***

The Company uses a lattice valuation model to account for all employee stock options granted. The lattice valuation model is a more flexible analysis to value options because of its ability to incorporate inputs that change over time, such as actual exercise behavior of option holders. The Company uses historical data to estimate the option exercise and employee departure behavior in the lattice valuation model. Expected volatility is based on historical volatility of the Company's stock. The Company considers all employees to have similar exercise behavior and therefore has not identified separate homogeneous groups for valuation. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods the options are expected to be outstanding is based on the U.S. Treasury yields in effect at the time of grant. Forfeitures are based on actual behavior patterns. The expected exercise factor and forfeiture rates are calculated using historical exercise and forfeiture activity for the previous three years.

The fair value of each option grant is estimated using the assumptions in the following table:

| | Nine Months Ended June 30, | |
|---|---|---|
| | **2020** | **2019** |
| Expected life | 4.5 - 4.7 years | 4.3 - 4.4 years |
| Risk-free interest rate | 0.25% - 1.63% | 2.14% - 2.93% |
| Expected volatility | 72.40% - 82.10% | 60.19% - 67.69% |
| Expected forfeiture rate | 14.33% - 15.38% | 13.51% - 14.76% |
| Expected exercise factor | 1.2 | 1.2 |
| Expected dividend yield | 0% | 0% |

A summary of option activity at June 30, 2020 and changes during the nine months then ended is presented below:

| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Period in Years |
|---|---|---|---|
| Outstanding at October 1, 2019 | 1,654,429 | $ 5.62 | 4.9 |
| Granted | 190,750 | 1.29 | 9.4 |
| Exercised | (21,000) | 0.88 | 8.4 |
| Forfeited | (61,283) | 3.98 | 4.5 |
| Outstanding at June 30, 2020 | 1,762,896 | 5.26 | 4.6 |
| Exercisable at June 30, 2020 | 1,400,497 | 6.27 | 3.7 |

A summary of the status of the Company's non-vested options and changes during the nine month period ended June 30, 2020 is presented below:

| **Non-vested Options** | **Options** | **Weighted-Average Grant Date Fair Value** |
|---|---|---|
| Non-vested at October 1, 2019 | 357,114 | $ 0.77 |
| Granted | 190,750 | 0.56 |
| Vested | (159,464) | 0.95 |
| Forfeited | (26,001) | 0.54 |
| Non-vested at June 30, 2020 | 362,399 | $ 0.60 |

The weighted average grant date fair value of options granted during the nine months ended June 30, 2020 was $0.56. As of June 30, 2020, there was $124 thousand of total unrecognized compensation cost related to non-vested stock-based compensation, with total forfeiture adjusted unrecognized compensation cost of $92 thousand. The cost is expected to be recognized over a weighted-average remaining life of 1.9 years.

Stock-based compensation recorded in the three and nine months ended June 30, 2020 was $18 thousand and $104 thousand. Stock-based compensation recorded in the three and nine months ended June 30, 2019 was $(17) thousand and $203 thousand. There was $18 thousand and $19 thousand in cash received from exercises under all stock option plans and warrants during the three and nine months ended June 30, 2020 and zero during the same periods in 2019. There were no tax benefits realized for tax deductions from option exercises in either of the three and nine month periods ended June 30, 2020 or 2019. The Company currently expects to satisfy share-based awards with registered shares available to be issued.

The Company also has an Employee Stock Purchase Plan ("Purchase Plan") under which an aggregate of 200,000 common shares may be issued. A total of 9,440 shares are available to be issued under the plan, which is net of 13,567 shares issued on July 13, 2020. The Company recorded stock compensation expense under this plan of less than $1 thousand and $2 thousand for each of the three and nine month periods ended June 30, 2020 and 2019.

***Preferred Stock and Dividends***

The Company considered relevant guidance when accounting for the issuance of preferred stock, and determined that the preferred shares meet the criteria for equity classification. Dividends accrued on preferred shares will be shown as a reduction to net income (or an increase in net loss) for purposes of calculating earnings per common share.

***Per Share Computation***

Basic earnings (loss) per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less shares that may be repurchased, and excludes any dilutive effects of options and warrants. In periods where the Company reports net income, diluted net income per share is computed using common equivalent shares related to outstanding options and warrants to purchase common stock. The numerator for the calculation of basic and diluted earnings per share is net income (loss) attributable to common stockholders. The following table sets forth the computation of basic and diluted weighted average shares used in the earnings per share calculations:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Denominator for basic net income (loss) per share - weighted average common shares | 7,399,545 | 6,122,098 | 6,972,924 | 5,528,999 |
| Effect of dilutive options (treasury method) | 430,748 | — | — | — |
| Denominator for diluted net income (loss) per share - adjusted weighted average common shares | 7,830,293 | 6,122,098 | 6,972,924 | 5,528,999 |
| Options, warrants and convertible shares outstanding during each period, but not included in the computation of diluted net loss per share because they are antidilutive | 1,630,706 | 2,055,415 | 2,061,454 | 2,428,675 |

***Liquidity***

At June 30, 2020, approximately $2.4 million of cash and cash equivalents was held by the Company's foreign subsidiaries.

The Company believes its cash position plus available resources is adequate to accomplish its business plan through at least the next twelve months. We will likely evaluate lease opportunities to finance equipment purchases in the future and support working capital needs. We may also seek additional equity financing but there are no assurances that these will be on terms acceptable to the Company.

***Recent Accounting Pronouncements***

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", ("ASU 2019-12"). The amendments in this ASU affect entities within the scope of Topic 740. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the amendments is permitted, including adoption in any interim period for public entities for periods for which financial statements have not yet been issued. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. An entity that elects early adoption much adopt all the amendments in the same period. The Company is currently evaluating the guidance and its impact to the financial statements.

Accounting standards that have been issued but are not yet effective by the FASB or other standards-setting bodies that do not require adoption until a future date, which are not discussed above, are not expected to have a material impact on the Company’s financial statements upon adoption.

***Recently Adopted Accounting Pronouncements***

*Leases (ASC Topic 842, Leases ("ASC 842"))*

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", ("ASU 2016-02") as well as several other related updates which were codified as ASC 842. On October 1, 2019, we adopted this update using the modified retrospective method through a cumulative-effect adjustment. The reported results for the three and nine months ended June 30, 2020 reflect the application of Topic 842, while the comparative information has not been restated and continues to be reported under the related lease accounting

standards in effect for those periods. The adoption of this update represents a change in accounting principle and resulted in the recognition of right-of-use assets and lease liabilities of $2.5 million on October 1, 2019. We elected the package of practical expedients, which permits us to leverage our prior conclusions about lease identification, lease classification and initial direct costs incurred. We also elected the practical expedient to combine lease and non-lease components when determining the value of right-of-use assets and lease liabilities. The primary effect of adopting this update relates to the recognition of our operating leases on our condensed consolidated balance sheets and providing additional disclosures about our leasing activities. Leases previously designated as capital leases are now identified as finance leases and continue to be reported on the condensed consolidated balance sheets. Leases previously identified as sales-type leases, where the Company is a lessor, continue to be reported on the condensed consolidated balance sheets. Refer to Note 3 - Commitments for additional disclosures related to our leasing activities.

**2. Related Party Transactions**

During the three and nine months ended June 30, 2020, the Company incurred fees of $112 thousand and $372 thousand to a law firm, a partner of which is a director and stockholder of the Company. The Company incurred similar fees of $105 thousand and $236 thousand during the three and nine months ended June 30, 2019. The Company had accrued liabilities for unbilled services of $0 thousand and $30 thousand at June 30, 2020 and September 30, 2019, respectively, to the same law firm.

On May 13, 2020, the Company entered into a debt conversion agreement with Mr. Burish to convert all outstanding debt owed to Mr. Burish into common stock at a conversion price of $5.00 per share. The total debt amount, including accrued interest and fees, of $5.6 million was converted into 1,114,723 shares of common stock. The transaction was recommended by the Company's Special Committee of Independent and Disinterested Directors and unanimously approved by all disinterested directors of the Company. Silverwood Partners, the Special Committee's financial advisor, issued a fairness opinion in connection with the transaction.

Mr. Burish beneficially owns more than 5% of the Company’s common stock. Mr. Burish also serves as the Chairman of the Board of Directors. An affiliated party beneficially owns more than 5% of the Company's common stock. All transactions with Mr. Burish and with the affiliated party were approved by a Special Committee of Disinterested and Independent Directors.

**3. Commitments**

***Inventory Purchase Commitments***

The Company enters into unconditional purchase commitments on a regular basis for the supply of Mediasite product. At June 30, 2020, the Company has an obligation to purchase $1.1 million of Mediasite product, which is not recorded on the Company's condensed consolidated balance sheet.

***Leases***

The Company has operating leases for corporate office space with various expiration dates. Our leases have remaining lease terms of up to three years, some of which include escalation clauses, renewal options for up to twelve years or termination options within one year.

We determine if an arrangement is a lease upon contract inception. The Company has both operating and finance leases. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments according to the arrangement.

A contract contains a lease if the contract conveys the right to control the use of the identified property, plant or equipment for a period of time in exchange for consideration. At commencement, contracts containing a lease are further evaluated for classification as an an operating or finance lease where the Company is a lessee, or as an operating, sales-type or direct financing lease where the Company is a lessor, based on their terms.

Lease right-of-use assets and lease liabilities are recognized as of the commencement date based on the present value of the lease payments over the lease term. The lease right-of use asset is reduced for tenant incentives and includes any initial direct costs incurred. We use the implicit rate when it is readily determinable. Otherwise, the present value of future minimum lease payments is determined using the Company's incremental borrowing rate. The incremental borrowing rate is based on the interest rate of the Company's most recent borrowing.

The lease term we use for the valuation of our right-of-use assets and lease liabilities may include options to extend or terminate the lease when it is reasonably certain that we will exercise those options. Lease expense is recognized on a straight-line basis over the expected lease term for operating leases. Amortization expense of the right-of-use asset for finance leases is recognized on a straight-line basis over the lease term and interest expense for finance leases is recognized based on the incremental interest rate.

Right-of-use assets and lease liabilities are recognized for our leases. Right-of-use assets under finance leases are included in property and equipment on the condensed consolidated balance sheets.

We have operating lease arrangements with lease and non-lease components. The non-lease components in our arrangements are not significant when compared to the lease components. For all operating leases, we account for the lease and non-lease components as a single component.

As of June 30, 2020, future maturities of operating and finance lease liabilities for the fiscal years ended September 30 are as follows (in thousands):

| | Operating Leases | Finance Leases |
|---|---|---|
| 2020 (remaining) | $ 345 | $ 44 |
| 2021 | 1,515 | 128 |
| 2022 | 456 | 79 |
| 2023 | 96 | 8 |
| 2024 | 102 | 5 |
| Thereafter | 101 | — |
| Total | 2,615 | 264 |
| Less: imputed interest | (262) | (18) |
| Total | $ 2,353 | $ 246 |

***Effect of Adopting ASC 842***

*Opening Balance Sheet Adjustment on October 1, 2019*

As a result of applying the modified retrospective method to adopt ASC 842, the following amounts on our condensed consolidated balance sheet were adjusted as of October 1, 2019 to reflect the cumulative effect adjustment to the opening balance sheet (in thousands):

| | As reported September 30, 2019 | ASC 842 adoption adjustments | Adjusted October 1, 2019 |
|---|---|---|---|
| Right-of-use assets under operating leases | — | 2,533 | 2,533 |
| **Total assets** | **$ 15,180** | **$ 2,533** | **$ 17,713** |
| | | | |
| Current portion of operating lease obligations | $ — | $ 1,314 | $ 1,314 |
| Accrued liabilities | 2,216 | (44) | 2,172 |
| Total current liabilities | 13,831 | 1,270 | 15,101 |
| | | | |
| Long-term portion of operating lease obligations | — | 1,263 | 1,263 |
| **Total liabilities** | **$ 21,433** | **$ 2,533** | **$ 23,966** |

Supplemental information related to leases is as follows (in thousands, except lease term and discount rate):

| | Nine Months Ended June 30, 2020 |
|---|---|
| Operating lease costs | $ 990 |
| Variable operating lease costs | 22 |
| Total operating lease cost | $ 1,012 |
| | |
| Finance lease cost: | |
| Amortization of right-of-use assets | $ 147 |
| Interest on lease liabilities | 17 |
| Total finance lease cost | $ 164 |

Variable lease costs include operating costs for U.S. office lease based on square footage and Consumer Price Index ("CPI") rent escalation and related VAT for office lease in the Netherlands.

Supplemental cash flow information related to operating and finance leases were as follows (in thousands):

| | Nine Months Ended June 30, 2020 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash outflows for operating leases | $ 1,016 |
| Operating cash outflows for finance leases | 17 |
| Financing cash outflows for finance leases | 161 |

Other information related to leases was as follows:

| | June 30, 2020 |
|---|---|
| **Weighted average remaining lease term (in years)** | |
| Operating leases | 2.4 |
| Finance leases | 2.2 |
| **Weighted average discount rate** | |
| Operating leases | 9.54% |
| Finance leases | 7.22% |

**4. Credit Arrangements**

***Partners for Growth V, L.P.***

On May 11, 2018, Sonic Foundry, Inc., entered into a Loan and Security Agreement (the “2018 Loan and Security Agreement”) with Partners for Growth V, L.P. (“PFG V”).

The 2018 Loan and Security Agreement provides for a Term Loan ("Term Loan") in the amount of $2,500,000, which was disbursed in two (2) Tranches as follows: Tranche 1 was disbursed on May 14, 2018 in the amount of $2,000,000; and Tranche 2 in the amount of $500,000, was disbursed on November 8, 2018. Each tranche of the Term Loan bears interest at 10.75% per annum. Tranche 1 of the Term Loan is payable interest only until November 30, 2018. Thereafter, principal is due in 30 equal monthly principal installments, plus accrued interest, beginning December 1, 2018 and continuing until May 1, 2021, when the principal balance is to be paid in full. Tranche 2 of the Term Loan is payable using the same repayment schedule as Tranche 1. Upon maturity, Sonic Foundry is required to pay PFG V a cash fee of $150,000. The principal of the Term Loan may be prepaid at any time without penalty as of May 14, 2019. The Term Loan is collateralized by substantially all the Company’s assets, including intellectual property.

Coincident with execution of the 2018 Loan and Security Agreement, the Company entered into a Warrant Agreement (“Warrant”) with PFG V. Pursuant to the terms of the Warrant, the Company issued to PFG V a warrant to purchase up to 66,000 shares of common stock of the Company at an exercise price of $2.57 per share, subject to certain adjustments. Pursuant to the Warrant, PFG V is also entitled, under certain conditions, to require the Company to exchange the Warrant for the sum of $250,000. All warrants issued in connection with PFG V expire on May 11, 2023.

At June 30, 2020, and September 30, 2019, the estimated fair value of the derivative liability associated with the warrants issued in connection with the 2018 Loan and Security Agreement, was $125 thousand and $9 thousand, respectively. Included in other expense, the remeasurement loss on the derivative liability during the three and nine months ended June 30, 2020 was $52 thousand and $116 thousand, respectively, compared to remeasurement gains of $5 thousand and $12 thousand during the three and nine months ended June 30, 2019.

The proceeds from the 2018 Loan and Security Agreement were allocated between the PFG V Debt and the Warrant Debt (inclusive of its conversion feature) based on their relative fair value on the date of issuance which resulted in carrying values of $2.3 million and $156 thousand, respectively. The warrant debt of $156 thousand is treated together as a debt discount on the PFG V Debt and will be accreted to interest expense under the effective interest method over the three-year term of the PFG V Debt and the five-year term of the Warrant Debt. During the three and nine months ended June 30, 2020, the Company recorded accretion of discount expense associated with the warrants issued with the PFG V loan of $6 thousand and $17 thousand compared to $5 thousand and $14 thousand in the same periods last year. In addition, $14 thousand and $42 thousand amortization of the debt discount was recorded in the current three month and six month period compared to $14 thousand and $40 thousand in the prior year. At June 30, 2020, the carrying value of the PFG V Debt and the Warrant Debt (inclusive of its conversion feature) were $917 thousand and $166 thousand, respectively. In addition, the Company agreed to pay PFG V a cash fee of up to $150,000 payable upon maturity (the “back-end fee”), which will be earned ratably over the three year term of the PFG V loan. During the three and nine months ended June 30, 2020, the Company recorded interest expense of $13 thousand and $38 thousand, associated with recognition of the back-end fee compared to $13 thousand and $38 thousand during the three and nine months ended June 30, 2019.

The non-cash effective interest expense is calculated on the net balance of the PFG V Debt, debt discount, back-end fee and related loan origination fees, on a monthly basis. During the three and nine months ended June 30, 2020, non-cash interest expense of $7 thousand related to the effective interest rate on the PFG V loan was recorded in both periods.

On March 11, 2019, Sonic Foundry, Inc. entered into a Consent, Waiver & Modification to the 2018 Loan and Security Agreement dated May 11, 2018 (the "Modification") with Partners for Growth V, L.P. ("PFG"). Under the Modification: PFG waived the Company's default on the Minimum EBITDA financial covenant for the quarterly reporting period ending December 31, 2018; modified the existing financial covenants to be as follows: (i) Minimum Coverage Ratio (as defined), which requires, as of the last day of each month on or after the closing date, to be equal to or greater than (x) 0.7: 1.00 for the December through May calendar months, and (y) 0.9:1.00 for the June through November calendar months; (ii) Minimum Qualifying Revenue (as defined), which requires, as of the last day of each calendar month, on or after December 1, 2018, on a trailing twelve-month basis, to be no less than $13,000,000; and modified the negative covenants to be as follows: the Company (x) shall not cause or permit (a) Japanese subsidiary indebtedness under its revolving line of credit facility to exceed at any time $1,000,000 outstanding, or (b) aggregate subsidiary indebtedness to exceed $1,200,000 at any time. At June 30, 2020, the Company was in compliance with all covenants per the 2018 Loan and Security Agreement, as modified.

Under the Modification, the Company was required to draw the next tranche of $1,000,000 in proceeds on the Note Purchase Agreement (detailed below) on or before March 31, 2019 as well as the final tranche of $1,000,000 in proceeds on or before April 30, 2019. The Company met this requirement as all tranches were fully drawn prior to April 30, 2019.

The existing terms of the PFG loan in terms of amortization, interest rate, payment schedule and maturity date are unchanged.

At June 30, 2020, a gross balance of $917 thousand was outstanding on the term debt with PFG V with an effective interest rate of sixteen-and-six-tenths percent (16.60%). At September 30, 2019, a gross balance of $1.7 million was outstanding with PFG V.

***Initial Notes of the February 28, 2019 Note Purchase Agreement***

On January 4, 2019, Sonic Foundry, Inc. and Mr. Burish entered into a Promissory Note (the "Promissory Note") pursuant to which Mr. Burish purchased a 9.25% Unsecured Promissory Note for $1,000,000 in cash. Interest accrued and outstanding principal on the Promissory Note was due and payable on January 4, 2020. The Promissory Note may be prepaid at any time without penalty. The Promissory Note was later included in the Note Purchase Agreement, dated February 28, 2019, as detailed below.

On January 31, 2019, Sonic Foundry, Inc. and Mr. Burish entered into a Promissory Note (the "January 31, 2019 Promissory Note") pursuant to which Mr. Burish purchased a 9.25% Unsecured Promissory Note for $1,000,000 in cash. Interest accrued and outstanding principal on the January 31, 2019 Promissory Note was due and payable on January 31, 2020. The January 31, 2019 Promissory Note may be prepaid any time without penalty. The note may be paid by the Company by issuing common stock to Mr. Burish, with each share valued at $1.30 per share. The January 31, 2019 Promissory Note was later included in the Note Purchase Agreement, dated February 28, 2019, as detailed below.

On February 14, 2019, Sonic Foundry, Inc. and Mr. Burish entered into a Promissory Note (the "February 14, 2019 Promissory Note") pursuant to which Mr. Burish purchased a 9.25% Unsecured Promissory Note for $1,000,000 in cash. Interest accrued and outstanding principal on the February 14, 2019 Promissory Note was due and payable on February 14, 2020. The February 14, 2019 Promissory Note may be prepaid any time without penalty. The note may be paid by the Company by issuing common stock to Mr. Burish with each share valued at $1.30 per share. The February 14, 2019 Promissory Note was later included in the Note Purchase Agreement, dated February 28, 2019, as detailed below.

***February 28, 2019 Note Purchase Agreement***

On February 28, 2019, Sonic Foundry, Inc. entered into a Note Purchase Agreement (the "Note Purchase Agreement") with Mr. Burish.

The Note Purchase Agreement provided for subordinated secured promissory notes (the "Subordinated Promissory Notes") in an aggregate original principal amount of up to $5,000,000. Mr. Burish acquired from the Company (a) on the initial closing date, the notes in an aggregate principal amount of $3,000,000 (the "Initial Notes") and (b) two additional tranches, each in the amount of $1,000,000 and payable at any time prior to the first anniversary of the Agreement (the "Additional Notes" and together with the Initial Notes, collectively, the "Purchase Price"). The Initial Notes were previously disbursed in January and February of 2019, as detailed above (the Promissory Note, the January 31st, 2019 Promissory Note, and the February 14, 2019 Promissory Note, collectively referred to as the "Initial Notes"). The fourth tranche was disbursed on March 13, 2019 and the fifth and final tranche was disbursed on April 4, 2019.

The Subordinated Promissory Notes accrued interest at the variable per annum rate equal to the Prime Rate (as defined) plus four percent ( 4.00%). The outstanding principal balance of the Subordinated Promissory Notes, plus all unpaid accrued interest, plus all outstanding and unpaid obligations, was set to mature on February 28, 2024 (the "Maturity Date"). Principal installments of $100,000 were to begin monthly on August 31, 2020, and continue through the Maturity Date. The Note Purchase Agreement dated February 28, 2019 was subordinated to the existing PFG loan.

At each anniversary of the Closing, an administration fee ("anniversary fee") equal to 0.5% of the purchase price less principal payments made was due and payable to Mr. Burish. During the three and nine months ended June 30, 2020, the Company recorded an accrued anniversary fee associated with the Subordinated Promissory Notes of $3 thousand and $16 thousand. There was no accrued anniversary fee for the prior periods. The anniversary fee on the Subordinated Promissory Notes was due on February 28, 2020 ("first year anniversary fee") and was deferred. On March 24, 2020, the Company entered into a First Amendment to Note Modification Agreement ("First Amendment") to formalize the deferment of the first year anniversary fee. The deferred first year anniversary fee was added to the principal amount due on the Subordinated Notes.

The proceeds from the Note Purchase Agreement were allocated between the Subordinated Promissory Notes and the Warrant debt based on their relative fair value on the date of issuance. The warrant debt of $674 thousand was treated together as a debt discount on the Subordinated Notes Payable and has been accreted to interest expense under the effective interest rate method over the five-year term of the Subordinated Notes Payable. During the three and nine months ended June 30, 2020, the Company recorded accretion of discount expense associated with the Subordinated Promissory Notes of $33 thousand and $67 thousand compared to the three and six months ended June 30, 2019 of $13 thousand and $13 thousand.

The non-cash effective interest expense was calculated on the net balance of the Subordinated Promissory Notes, Warrant, and related loan origination fees, on a monthly basis. During the three and nine months ended June 30, 2020, $13 thousand and $2 thousand of non-cash interest benefit related to the effective interest rate on the Subordinated Promissory Notes was recorded.

***May 13, 2020 Debt Conversion Agreement***

On May 13, 2020, the Company entered into a debt conversion agreement with Mr. Burish to convert all outstanding debt owed to Mr. Burish into common stock at a conversion price of $5.00 per share. The net carrying value of $5.0 million, including principal and accrued interest of $5.6 million less debt discount and loan origination fees of $596 thousand, was converted into 1,114,723 shares of common stock. This resulted in a net loss of $26 thousand.

***February 28, 2019 Warrant***

Coincident with execution of the Note Purchase Agreement, the Company entered into a Warrant Agreement ("Warrant") with Mr. Burish. Pursuant to the terms of the Warrant, the Company issued to Mr. Burish a warrant to purchase up to 728,155 shares of common stock of the Company at an exercise price of $1.18 per share, subject to certain adjustments.

On April 25, 2019, Mr. Burish exercised his warrant to purchase 728,155 shares of common stock of the Company at an exercise price of $1.18 per share. A special committee of disinterested and independent directors approved the issuance of the Subordinated Promissory Notes and the Warrant.

***Paycheck Protection Program (PPP) Loan Dated April 20, 2020***

Following the approval of the Board of Directors, the Company and First Business Bank entered into a $2.3 million Promissory Note (the "Promissory Note") under the Paycheck Protection Program (PPP) contained within the new Coronavirus Aid, Relief, and Economic Security (CARES) Act. The PPP loan has a term of two years for those companies receiving loan proceeds prior to June 5, 2020, is unsecured, and is guaranteed by the U.S. Small Business Administration ("SBA"). The loan carries a fixed interest rate of 1% per annum. Under the terms of the CARES Act, the Company will be eligible for and intends to apply for forgiveness of all loan proceeds used for payroll costs, rent, utilities, and other qualifying expenses during the eight-week or twenty-four week period ("covered period") following receipt of the loan, provided the Company maintains its employment and compensation within certain parameters during such period, and provided further that not more than 40% of the amount forgiven can be attributable to non-payroll costs. The Company must apply for forgiveness within 10 months from the end of the covered period.. First Business Bank will then have 60 days to review the application and submit it to the SBA and the SBA will have 90 days from receipt of the application to review and render a decision back to the lender. If the borrower does not apply for loan forgiveness within the 10 month time frame, or if the SBA determines that the loan is not eligible for forgiveness (in whole or in part), the PPP loan is no longer deferred and the borrower must begin paying principal and interest. If this occurs, the lender must notify the borrower of the amount and the date the first payment is due. The SBA is scheduled to begin accepting applications for forgiveness from lenders on August 10, 2020 when the development of its new software-as-a-service platform goes live, however, the Company's lender is currently waiting for completion of their own platform before accepting any applications. As of June 30, 2020 the full amount of the loan has been included in long-term notes payable and interest of $5 thousand has been accrued on the full amount of the loan.

***Other Indebtedness***

On January 30, 2020, Mediasite K.K. entered into a Term Loan ("Term Loan") with Sumitomo Mitsui Banking Corporation for $460 thousand in cash. The Term loan accrues interest at an annual rate of 1.475%. Beginning in January 2020, principal is due in 12 equal monthly installments, plus accrued interest, continuing through December 30, 2020, when the principal balance will be paid in full.

At June 30, 2020, $232 thousand was outstanding on the term loan with Mitsui Sumitomo Bank. The term loan accrues interest at an annual rate of approximately one-and-one-half percent (1.475%).

At June 30, 2020 and September 30, 2019, no balance was outstanding on the line of credit with Mitsui Sumitomo Bank. The credit facility is related to Mediasite K.K., and accrues interest at an annual rate of approximately one-and-one half percent (1.575%).

**5. Income Taxes**

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accruals for interest and penalties on the Company's Condensed Consolidated Balance Sheets at June 30, 2020 or September 30, 2019, and has not recognized any interest or penalties in the Condensed Consolidated Statements of Operations for either of the three or nine months ended June 30, 2020 or 2019.

The Company's tax rate differs from the expected tax rate each reporting period as a result of permanent differences, the valuation allowance, and international tax items.

## 6. Revenue

### *Disaggregation of Revenues*

The following tables summarize revenues from contracts with customers for the three and nine months ended June 30, 2020 and 2019, respectively, (in thousands) by subsidiary, which includes the parent (SOFO), our Netherlands location (SFI) and our Japanese location (MSKK) :

| Three months ended June 30, 2020 | | | | | |
|---|---|---|---|---|---|
| | **SOFO** | **SFI** | **MSKK** | **Eliminations** | **Total** |
| **Revenue:** | | | | | |
| Hardware | $ 1,635 | $ 272 | $ 111 | $ (310) | $ 1,708 |
| Software | 707 | 105 | 330 | (122) | 1,020 |
| Shipping | 13 | 3 | — | — | 16 |
| Product and other total | 2,355 | 380 | 441 | (432) | 2,744 |
| Support | 1,865 | 146 | 458 | (128) | 2,341 |
| Hosting | 1,358 | 145 | 202 | — | 1,705 |
| Events | 702 | 23 | 168 | — | 893 |
| Installs & training | 217 | 17 | — | — | 234 |
| Services total | 4,142 | 331 | 828 | (128) | 5,173 |
| Total revenue | $ 6,497 | $ 711 | $ 1,269 | $ (560) | $ 7,917 |

| Nine months ended June 30, 2020 | | | | | |
|---|---|---|---|---|---|
| | SOFO | SFI | MSKK | Eliminations | Total |
| **Revenue:** | | | | | |
| Hardware | $ 4,244 | $ 491 | $ 308 | $ (507) | $ 4,536 |
| Software | 2,304 | 358 | 561 | (356) | 2,867 |
| Shipping | 203 | 6 | — | — | 209 |
| Product and other total | 6,751 | 855 | 869 | (863) | 7,612 |
| Support | 5,762 | 437 | 1,695 | (488) | 7,406 |
| Hosting | 3,496 | 425 | 899 | — | 4,820 |
| Events | 2,725 | 97 | 1,495 | — | 4,317 |
| Installs & training | 425 | 19 | — | — | 444 |
| Services total | 12,408 | 978 | 4,089 | (488) | 16,987 |
| Total revenue | $ 19,159 | $ 1,833 | $ 4,958 | $ (1,351) | $ 24,599 |

| Three months ended June 30, 2019 | | | | | |
|---|---|---|---|---|---|
| | SOFO | SFI | MSKK | Eliminations | Total |
| **Revenue:** | | | | | |
| Hardware | $ 2,761 | $ 388 | $ 76 | $ (268) | $ 2,957 |
| Software | 1,027 | 128 | 79 | (78) | 1,156 |
| Shipping | 105 | 3 | — | — | 108 |
| Product and other total | 3,893 | 519 | 155 | (346) | 4,221 |
| Support | 1,965 | 176 | 451 | (245) | 2,347 |
| Hosting | 1,066 | 123 | 388 | — | 1,577 |
| Events | 1,079 | 64 | 648 | — | 1,791 |
| Installs & training | 132 | — | — | — | 132 |
| Services total | 4,242 | 363 | 1,487 | (245) | 5,847 |
| Total revenue | $ 8,135 | $ 882 | $ 1,642 | $ (591) | $ 10,068 |

| Nine Months Ended June 30, 2019 | | | | | |
|---|---|---|---|---|---|
| | SOFO | SFI | MSKK | Eliminations | Total |
| **Revenue:** | | | | | |
| Hardware | $ 4,359 | $ 562 | $ 461 | $ (568) | $ 4,814 |
| Software | 2,287 | 367 | 397 | (354) | 2,697 |
| Shipping | 253 | 4 | — | — | 257 |
| Product and other total | 6,899 | 933 | 858 | (922) | 7,768 |
| Support | 5,913 | 510 | 1,673 | (717) | 7,379 |
| Hosting | 3,182 | 387 | 1,254 | — | 4,823 |
| Events | 3,160 | 140 | 2,042 | — | 5,342 |
| Installs & training | 240 | 15 | — | — | 255 |
| Services total | 12,495 | 1,052 | 4,969 | (717) | 17,799 |
| Total revenue | $ 19,394 | $ 1,985 | $ 5,827 | $ (1,639) | $ 25,567 |

***Transaction price allocated to future performance obligations***

ASC 606 allows for the use of certain practical expedients, which we have elected and applied to measure our future performance obligations as of June 30, 2020.

As of June 30, 2020, the aggregate amount of the transaction price that is allocated to our future performance obligations was approximately $4.4 million in the next three months, $9.6 million in the next twelve months, and the remaining $1.8 million thereafter.

***Disclosures related to our contracts with customers***

Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to our contracts with customers. We record assets for amounts related to performance obligations that are satisfied but not yet billed and/or collected. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations. These liabilities are classified as current and non-current unearned revenue.

***Unearned revenues***

Unearned revenues represent our obligation to transfer products or services to our client for which we have received consideration, or an amount of consideration is due, from the client. During the three and nine months ended June 30, 2020, revenues recognized related to the amount included in the unearned revenues balance at the beginning of the period was $2.2 million and $8.9 million compared to $2.6 million and $9.5 million recognized during the three and nine months ended June 30, 2019.

***Assets recognized from the costs to obtain our contracts with customers***

We recognize an asset for the incremental costs of obtaining a contract with a customer. We amortize these deferred costs proportionate with related revenues over the period of the contract. During the three and nine months ended June 30, 2020, amortization expense related to the amount included in the capitalized commissions at the beginning of the period was $114 thousand and $444 thousand compared to $134 thousand and $530 thousand recognized during the three and nine months ended June 30, 2019.

**Subsequent Events**

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization. The disruption caused by the outbreak is uncertain and continues to evolve rapidly, however, it may result in material adverse impact on the Company's financial position, operations and cash flows. While we are unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including the duration, severity and impact of the pandemic and containment measures, our compliance with these measures has impacted our day-to-day operations and could disrupt our business and operations, as well as those of our key business partners, vendors and other counterparties for an indefinite period of time.

On August 5, 2020 the Company announced that its Board of Directors had unanimously chosen Joe Mozden, Hr. as the new Chief Executive Officer effective September 14, 2020. He will succeed Michael Norregaard who took the post in May 2019.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Risks and Uncertainties

This report includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: "Management's Discussion and Analysis," and "Risk Factors." These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in "Risk Factors" (Part I, Item 1A of the Company's Annual Report on Form 10-K for the Fiscal Year ended September 30, 2019 and Part II, Item 1A of this Form 10-Q), "Quantitative and Qualitative Disclosures about Market Risk" (Part I, Item 3 of this Form 10-Q and Part II, Item 7A of the Company's Annual Report on Form 10-K for the Fiscal Year ended September 30, 2019), and "Management's Discussion and Analysis" (Part I, Item 2 of this Form 10-Q). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

### Overview

Sonic Foundry, Inc. is a trusted global leader for video capture, management and streaming solutions. Trusted by educational institutions, corporations and government entities, Mediasite Video Platform quickly and cost-effectively automates the capture, management, delivery and search of live and on-demand streaming video and rich media. Mediasite transforms communications, training, education and events for our customers.

### Recent Developments

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. While we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration, severity and impact of the pandemic and containment measures, our compliance with these measures has impacted our day-to-day operations and could disrupt our business and operations, as well as those of our key business partners, vendors and other counterparties for an indefinite period of time. To support the health and well-being of our employees, business partners and communities, a vast majority of our employees have been working remotely since mid-March 2020 and continue to do so.

COVID-19 has had negative near-term impacts on our operations and the future impacts of the pandemic and any corresponding economic results are largely unknown and rapidly evolving. Beginning in March and continuing through this quarter and beyond, the events portion of our business was and continues to be significantly impacted by cancellations and/or postponements due to social distancing protocols enacted to stem the spread of the virus. In addition, the closure of educational institutions globally and the negative financial impact on their funding, could impact our sales in the upcoming quarters. While the virus has increased awareness of the need for distance learning tools and the adoption of video as a necessary communication medium, it is impossible for us to predict with confidence the long-term financial impact on our business including results of operations and liquidity.

## RESULTS OF OPERATIONS

### ASC 842

On October 1, 2019, we adopted ASC Topic 842, *Leases* ("ASC 842"), using the modified retrospective method. Under this method, we recognized the cumulative effect of applying the new standard to existing leases that were active as of the adoption date as an adjustment to the opening balance sheet. The reported results for the three and nine months ended June 30, 2020 reflect the adoption of ASC 842, while the comparative information has not been restated and continues to be reported under the related accounting standards in effect for those periods. Refer to Note 3 - Commitments to the notes to the condensed consolidated financial statements (unaudited) for additional information related to the effect of the adoption of ASC 842 as of and for the three and nine months ended June 30, 2020.

### Revenue

Revenue from our business includes the sale of Mediasite recorders and server software products and related services contracts, such as customer support, installation, customization services, training, content hosting and event services. We market our products to educational institutions, corporations and government agencies that need to deploy, manage, index and distribute video content on Internet-based networks. We reach both our domestic and international markets through reseller networks, a direct sales effort and partnerships with system integrators.

***Q3-2020 compared to Q3-2019***

Revenue in Q3-2020 decreased $2,151 thousand, or 21% to $7.9 million, from Q3-2019 revenue of $10.1 million. Revenue consisted of the following:

- Product and other revenue from sale of Mediasite recorder units and server software was $2.7 million in Q3-2020 and $4.2 million in Q3-2019. Customer indecision due to uncertainty around COVID-19 reduced the number of recorders sold during the quarter. Also, unit sales in Q3-2019 were higher due to a shipment of 134 recorders to one international customer. Average selling price was higher in Q3-2020 as compared to Q3-2019 primarily as a result of a higher sales volume of low-cost recorders in the prior year.

| | Q3-2020 | Q3-2019 |
|---|---|---|
| Recorders sold | 276 | 545 |
| Rack units to mobile units ratio | 13.5 to 1 | 10.4 to 1 |
| Average sales price, excluding service (000's) | $ 6.2 | $ 5.7 |
| Refresh Units | 129 | 273 |

- Service revenue represents the portion of fees charged for Mediasite customer support contracts amortized over the length of the contract, typically 12 months, as well as training, installation, events and content hosting services. Services revenue decreased $674 thousand or 12% from $5.8 million in Q3-2019 to $5.2 million in Q3-2020 primarily due to cancellations in event services due to COVID-19.

- At June 30, 2020, $11.3 million of revenue was deferred, of which we expect to recognize $9.6 million in the next twelve months, including approximately $4.4 million in the quarter ending September 30, 2020. At September 30, 2019, $11.5 million of revenue was deferred.

- Other revenue relates to freight charges billed separately to our customers.

***YTD-2020 (nine months) compared to YTD-2019 (nine months)***

Revenues for YTD-2020 totaled $24.6 million compared to YTD-2019 revenues of $25.6 million. Revenues included the following:

- $7.6 million product and other revenue from the sale of 848 Mediasite recorders and software during YTD- 2020 versus $7.8 million from the delivery of 780 Mediasite recorders and software in YTD-2019. Recorders sold this year were higher than YTD-2019, partially due to large refresh orders in Q2-2020 and Q3-2020 as well as our planned reduced reliance on distribution during the first half of FY-2019.

- $17.0 million from Mediasite customer support contracts, installation, training, events and hosting services versus $17.8 million in 2019. The decrease in service was due to cancellations in event services due to COVID-19.

**Gross Margin**

***Q3-2020 compared to Q3-2019***

Gross margin for Q3-2020 was $5.7 million or 73% of revenue compared to Q3-2019 gross margin of $7.4 million or 73%. The significant components of cost of revenue include:

- *Material and freight costs for the Mediasite recorders.* Costs for Q3-2020 Mediasite recorder hardware and other costs totaled $481 thousand, along with $46 thousand of freight costs, and $633 thousand of labor and allocated costs, compared to Q3-2019 Mediasite recorder costs of $1.1 million for hardware and other costs, $74 thousand for freight and $394 thousand of labor and allocated costs. This resulted in gross margin on products of 56% in Q3-2020 and 63% in Q3-2019.

- *Services costs.* Staff wages and other costs allocated to cost of service revenue were $1.0 million in Q3-2020 and $1.1 million in Q3-2019, resulting in gross margin on services of 81% in Q3-2020 and 81% in Q3-2019.

***YTD-2020 (nine months) compared to YTD-2019 (nine months)***

Gross margin for YTD- 2020 was $17.8 million or 73% of revenue compared to YTD-2019 gross margin of $19.0 million or 74% . The significant components of cost of revenue include:

- *Material and freight costs for the Mediasite recorders.* Costs for YTD- 2020 Mediasite recorder hardware and other costs totaled $1.1 million, along with $104 thousand of freight costs, and $1.9 million of labor and allocated costs, compared to YTD-2019 Mediasite recorder costs of $1.5 million for hardware and other costs, $177 thousand for freight and $1.2 million of labor and allocated costs. This resulted in gross margin on products of 58% in YTD-2020 and 63% in YTD-2019.

- Service costs. Staff wages and other costs allocated to cost of service revenue were $3.6 million in YTD-2020 and $3.7 million in YTD-2019, resulting in gross margin on services of 79% in YTD-2020 and 79% in YTD-2019.

**Operating Expenses**

**Selling and Marketing Expenses**

Selling and marketing expenses include wages and commissions for sales, marketing and business development personnel, print advertising and various promotional expenses for our products. Timing of these costs may vary greatly depending on introduction of new products and services or entrance into new markets, or participation in major tradeshows.

***Q3-2020 compared to Q3-2019***

Selling and marketing expenses decreased $805 thousand or 21% from $3.8 million in Q3-2019 to $3.0 million in Q3-2020. Differences in the major categories include:

- Salary, commissions, and benefits expense decreased by $370 thousand as a result of reduced headcount.

- Travel expenses, including entertainment and meals, decreased by $217 thousand due to COVID-19.

- Selling and marketing expenses for Sonic Foundry International and Mediasite KK accounted for $131 thousand and $698 thousand respectively, an aggregate decrease of $67 thousand from Q3-2019.

***YTD-2020 (nine months) compared to YTD-2019 (nine months)***

Selling and marketing expenses decreased $2.1 million or 18% from $11.6 million in YTD-2019 to $9.4 million in YTD-2020. Differences in the major categories include:

- Salary, commissions, and benefits expense decreased by $1.1 million as a result of reduced headcount.
- Travel expenses, including entertainment and meals, decreased by $524 thousand.
- Selling and marketing expenses for Sonic Foundry International and Mediasite KK accounted for $457 thousand and $1.9 million, respectively, an aggregate decrease of $109 thousand from YTD-2019.

We anticipate selling and marketing headcount to remain consistent throughout the remainder of the fiscal year.

**General and Administrative Expenses**

General and administrative ("G&A") expenses consist of personnel and related costs associated with the facilities, finance, legal, human resource and information technology departments, as well as other expenses not fully allocated to functional areas.

***Q3-2020 compared to Q3-2019***

G&A expenses decreased $579 thousand or 36% from $1.6 million in Q3-2019 to $1.0 million in Q3-2020. Differences in the major categories include:

- Decrease in compensation and benefits of $421 thousand as a result of reduced headcount.
- Decrease in facility expenses of $121 thousand including internet and phone charges.
- G&A expenses for Sonic Foundry International and Mediasite KK accounted for $16 thousand and $181 thousand respectively, an aggregate decrease of $71 thousand from Q3-2019.

***YTD-2020 (nine months) compared to YTD-2019 (nine months)***

G&A expenses decreased $845 thousand or 19% from $4.5 million in YTD-2019 to $3.6 million in YTD-2020. Differences in the major categories include:

- Decrease in compensation and benefits of $778 thousand as a result of reduced headcount.
- Professional services increased by $215 thousand primarily due to an increase in legal and advisory fees.
- G&A expenses for Sonic Foundry International and Mediasite KK accounted for $47 thousand and $606 thousand respectively, an aggregate decrease of $142 thousand from YTD-2019.

We anticipate general and administrative headcount to remain consistent throughout the remainder of the fiscal year.

**Product Development Expenses**

Product development expenses include salaries and wages of the software research and development staff and an allocation of benefits, facility and administrative expenses.

***Q3-2020 compared to Q3-2019***

Product development expenses decreased by $338 thousand, or 18% from $1.8 million in Q3-2019 to $1.5 million in Q3-2020. Differences in the major categories include:

- Decrease in compensation and benefits of $266 thousand as a result of reduced headcount.
- Decrease in professional services of $17 thousand.
- Product development expense for Sonic Foundry International and Mediasite KK accounted for $114 thousand and $89 thousand respectively, an aggregate decrease of $8 thousand compared to Q3-2019.

***YTD-2020 (nine months) compared to YTD-2019 (nine months)***

Product development expenses decreased by $1.0 million, or 18% from $5.6 million in YTD-2019 to $4.6 million in YTD-2020. Differences in the major categories include:

- Decrease in compensation and benefits of $729 thousand related primarily to reduced headcount.
- Decrease in professional services of $67 thousand due to decreased use of outsourced development.
- Product development expense for Sonic Foundry International and Mediasite KK accounted for $340 thousand and $234 thousand respectively, an aggregate decrease of $24 thousand compared to YTD-2019.

We anticipate product development headcount to remain consistent throughout the remainder of the fiscal year. We do not anticipate that any fiscal 2020 software development efforts will qualify for capitalization.

**Other Income and Expense, Net**

Interest expense for the three and nine months ended June 30, 2020 decreased $136 thousand and increased $36 thousand, respectively, compared to the same periods last year. The YTD increase over the prior year is mainly a result of interest on the Subordinated Promissory Notes with Mr. Burish, the first tranche of which was disbursed on January 4, 2019. The quarter decrease is a result of those same notes being converted to equity on May 13, 2020. The Company also recorded $14 thousand and $42 thousand of interest expense for the three and nine months ended June 30, 2020 related to the accretion of discounts on the PFG Loan and Warrant Debt compared to $14 thousand and $40 thousand for the three and nine months ended June 30, 2019. The Company also recorded amortization expense related to the back-end fee on the PFG loan of $13 thousand and $38 thousand in both the three and nine month ended June 30, 2020 compared to $13 thousand and $38 thousand for the same periods last year. The Company also recorded $16 thousand and $84 thousand of interest expense during the three and nine months ended June 30, 2020 related to the accretion of discounts on the Burish notes payable compared to $33 thousand $45 thousand for the three and nine months ended June 30, 2019.

During the three and nine months ended June 30, 2020, a loss in fair value of $52 thousand and $116 thousand, respectively, was recorded related to the fair value remeasurement on the derivative liability associated with the Loan and Security Agreement and Warrant Debt with PFG compared to a loss in fair value of $5 thousand and a gain of $12 thousand, respectively, during the three and nine months ended June 30, 2019. The loss in fair value for the current three and nine month periods relates to the increase in stock price from $1.12 per share at market close on September 30, 2019, to $3.55 per share at market close on March 31, 2020 and finally, to $4.74 per share at market close on June 30, 2020. The fair value of the derivative liability is measured at fair value based on a Black Scholes option pricing model with assumptions for stock price, exercise price, volatility, expected term, risk free interest rate and dividend yield.

**Foreign Currency Translation Adjustment**

The Company's wholly-owned subsidiaries operate in Japan and the Netherlands, and utilize the Japanese Yen and Euro, respectively, as their functional currency. Assets and liabilities of the Company's foreign operations are translated in US dollars at period end exchange rates while revenues and expenses are translated using average rates for the period. Gains and losses from the translation are deferred and included in accumulated other comprehensive loss the consolidated statements of operations.

For the three and nine months ended June 30, 2020, the Company's foreign currency translation adjustment was a gain of $15 thousand and a gain of $12 thousand compared to to a gain of $89 thousand and a gain of $134 thousand for the three and nine months ended June 30, 2019.

During the three and nine months ended June 30, 2020, the Company recorded an aggregate transaction loss of $56 thousand and a loss of $34 thousand compared to an aggregate loss of $64 thousand and $112 thousand for the three and nine months ended June 30, 2019. The aggregate transaction gain or loss is included in the other expense line of the condensed consolidated statements of operations.

**Liquidity and Capital Resources**

The Company’s primary sources of liquidity are its cash from operations and debt and equity financing. During the first nine months of fiscal 2020, the Company generated $1.2 million of cash from operating activities compared with $2.5 million used in the same period of fiscal 2019.

Capital expenditures were $683 thousand in the first nine months of fiscal 2020 compared to $373 thousand in the same period in fiscal 2019.

The Company generated $1.7 million of cash from financing activities during the first nine months of fiscal 2020, primarily due to net proceeds from the disbursement of the Mediasite term note of $463 thousand and the PPP loan of $2.3 million. Proceeds were offset by payments of $984 thousand on existing debt. For the same period in fiscal 2019, the Company generated $5.0 million of cash from financing activities primarily due to net proceeds from the disbursement of Tranches 1-4 of the Burish Note Purchase Agreement.

At June 30, 2020, the Company had $3.7 million outstanding, net of warrant debt and debt discounts, related to notes payable with PFG V, the Mediasite KK term debt and the PPP loan. The Company made principal payments of $250 thousand and $750 thousand for the three and nine months ended June 30, 2020 on the PFG V debt, and $113 thousand and $234 thousand on the Mediasite KK term debt for the three and nine months ended June 30, 2020.

At June 30, 2020, approximately $2.4 million of cash and cash equivalents was held by the Company’s foreign subsidiaries.

On May 13, 2020, the Company and Mr. Burish entered into a Debt Conversion Agreement to convert Mr. Burish's existing secured debt of approximately $5.6 million into common stock at $5.00 per share. Both the Special Committee and Mr. Burish concluded that converting the debt to equity was the most appropriate way to maximize both Company and Shareholder value, improve the Company's financial position, and provide the Company with resources to further its growth opportunities.

The Company believes its cash position plus available resources is adequate to accomplish its business plan through at least the next twelve months. We will likely evaluate lease opportunities to finance equipment purchases in the future and anticipate continuing to utilize proceeds from the notes and term debt to support working capital needs. We may also seek additional equity financing but there are no assurances that these will be on terms acceptable to the Company.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from those reported in the Company's Annual Report on Form 10-K for the year-ended September 30, 2019. At June 30, 2020, none of the Company's $3.7 million in outstanding debt is variable rate, therefore, an increase in the level of interest rates would not have any material impact on our Consolidated Financial Statements. We monitor our positions with, and the credit quality of, the financial institutions that are party to any of our financial transactions.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Based on evaluations at June 30, 2020, our principal executive officer and principal financial officer, with the participation of our management team, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Securities Exchange Act). Disclosure controls and procedures ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that material information relating to the Company is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2020.

### Changes in Internal Controls

On October 1, 2019, we adopted ASC 842. As a result, changes were made to the relevant business processes and related control activities in order to monitor and maintain appropriate controls over financial reporting.

During the period covered by the quarterly report on Form 10-Q, the Company has not made any other changes to its internal control over financial reporting (as referred to in Paragraph 4(b) of the Certifications of the Company's principal executive officer and principal financial officer included as exhibits to the report) that have materially affected, or are reasonably likely to affect the Company's internal control over financial reporting.

## PART II
## OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Form 10-K for the fiscal year ended September 30, 2019 filed with the SEC.

### ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 6. EXHIBITS

| NUMBER | DESCRIPTION |
|---|---|
| 3.1 | Articles of Amendment of Amended and Restated Articles of Incorporation, effective November 16, 2009, Amended and Restated Articles of Incorporation, effective January 26, 1998, and Articles of Amendment, effective April 9, 2000, filed as Exhibit No. 3.1 to the Annual Report on Form 10-K for the year ended September 30, 2009, and hereby incorporated by reference. |
| 3.2 | Articles Supplementary to the Company Charter of the Registrant, as relates to Series A Preferred Stock, dated May 30, 2017, filed as Exhibit 5.03 to the 8-K filed on June 5, 2017, and hereby incorporated by reference. |
| 3.3 | Articles Supplementary to the Company Charter of the Registrant, as relates to Series A Preferred Stock, dated November 6, 2017, filed as Exhibit 3.1 to the Form 8-K filed on November 21, 2017, and hereby incorporated by reference. |
| 3.4 | Amended and Restated By-Laws of the Registrant, filed as Exhibit No. 3.1 to the Form 8-K filed on January 25, 2018, and hereby incorporated by reference. |
| 3.5 | Articles Supplementary to the Company Charter of the Registrant, as relates to Series A Preferred Stock, filed as Exhibit 3.1 to the Form 8-K filed on May 23, 2018, and hereby incorporated by reference. |
| 10.1* | Registrant's 2008 Non-Employee Directors' Stock Option Plan, as amended, filed as Exhibit 3 to the Form 14A filed on January 26, 2017, and hereby incorporated by reference. |
| 10.2* | Registrant's 2008 Employee Stock Purchase Plan, as amended, filed as Exhibit 1 to the Form 14A filed on January 26, 2017, and hereby incorporated by reference. |
| 10.3* | Registrant's 2009 Stock Incentive Plan, as amended, filed as Exhibit 2 to the Form 14A filed on January 26, 2017, and hereby incorporated by reference. |
| 10.4 | Lease Agreement between Registrant, as tenant, and West Washington Associates, LLC as landlord, dated June 28, 2011, filed as Exhibit 10.1 to the Form 8-K filed on July 1, 2011, and hereby incorporated by reference. |
| 10.5* | Employment Agreement dated March 21, 2014 between Sonic Foundry, Inc. and Kenneth A. Minor, filed as Exhibit 10.2 to the Form 8-K filed on March 26, 2014, and hereby incorporated by reference. |
| 10.6 | Forms of Subscription Agreements, Lock-Up Agreements and Warrant Agreements dated December 22, 2014 among Sonic Foundry, Inc. and Mark Burish, and Sonic Foundry, Inc. and Andrew Burish, filed as Exhibits 10.1, 10.2, and 10.3 to the Form 8-K filed on December 30, 2014 and hereby incorporated by reference. |
| 10.7 | Lease Agreement between Sonic Foundry International, as tenant, and Prinsen Geerligs as landlord, dated February 1, 2014, filed as Exhibit 10.25 to the form 10-Q on February 6, 2015, and hereby incorporated by reference. |
| 10.8 | Loan and Security Agreement, dated May 13, 2015 among Registrant, Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit 10.27 to the form 10-Q filed on May 14, 2015, and hereby incorporated by reference. |
| 10.9 | Warrant, dated as of May 13, 2015, between Registrant and Partners for Growth IV, L.P., filed as Exhibit 10.28 to the form 10-Q filed on May 14, 2015, and hereby incorporated by reference. |
| 10.10 | Warrant dated as of May 13, 2015, between Registrant and PFG Equity Investors, LLC, filed as Exhibit 10.30 to the form 10-Q filed on May 14, 2015, and hereby incorporated by reference. |

| | |
|---|---|
| 10.11 | Intellectual Property Security Agreement, dated as of May 13, 2015, between Registrant and Partners for Growth IV, L.P., filed as Exhibit 10.31 to form 10-Q filed on May 14, 2015, and hereby incorporated by reference. |
| 10.12 | Modification No. 1 to Loan and Security Agreement, dated September 30, 2015 among Registrant, Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit No. 10.2 to the Form 8-K filed on October 9, 2015, and hereby incorporated by reference. |
| 10.13 | Lease Agreement between Mediasite KK, as tenant, and Sumitomo Metal Mining Co., Ltd., as landlord, dated August 1, 2016, filed as Exhibit 10.1 to the Form 8-K filed on August 3, 2016, and hereby incorporated by reference. |
| 10.14 | Modification No. 2 to Loan and Security Agreement, dated February 8, 2017 among Registrant, Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit 10.28 to the Form 10-Q filed on February 9, 2017, and hereby incorporated by reference. |
| 10.15 | Waiver and Modification No. 3 to Loan and Security Agreement, dated May 11, 2017 among Registrant Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit 10.31 to the Form 10-Q filed on May 11, 2017, and hereby incorporated by reference. |
| 10.16 | Subscription Agreement between Registrant and Mark D. Burish, dated May 30, 2017, filed as Exhibit 3.02 to the 8-K filed on June 5, 2017, and hereby incorporated by reference. |
| 10.17 | Agreement Not to Convert between Registrant and Mark D. Burish, dated November 17, 2017, filed as Exhibit 10.1 to the Form 8-K filed on November 21, 2017, and hereby incorporated by reference. |
| 10.18 | Subscription Agreement between Registrant and Mark D. Burish, dated August 23, 2017, filed as Exhibit 10.1 to the Form 8-K filed on August 25, 2017, and hereby incorporated by reference. |
| 10.19 | Modification No. 4 to Loan and Security Agreement, dated December 28, 2017 among Registrant, Sonic Foundry, Inc. and Partners for Growth IV, L.P., filed as Exhibit 10.2 to the Form 8-K filed on December 29, 2017, and hereby incorporated by reference. |
| 10.20 | Subscription Agreement between Registrant and Mark D. Burish, dated January 19, 2018, filed as Exhibit 10.1 to the Form 8-K filed on January 25, 2018, and hereby incorporated by reference. |
| 10.21 | 10.75% Convertible Secured Subordinated Promissory Note between Registrant and Mark D. Burish, filed as Exhibit 10.2 to the Form 8-K filed on January 25, 2018, and hereby incorporated by reference. |
| 10.22 | Subscription Agreement between Registrant and Andrew D. Burish, dated April 16, 2018, filed as Exhibit 10.1 to the Form 8-K filed on April 18, 2018 and hereby incorporated by reference. |
| 10.23 | Warrant, dated April 16, 2018, filed as Exhibit 10.2 to the Form 8-K filed on April 16, 2018, and hereby incorporated by reference. |
| 10.24 | Loan and Security Agreement, dated May 11, 2018 among Registrant, Sonic Foundry, Inc. and Partners for Growth V, L.P., filed as Exhibit 10.41 to the Form 10-Q filed on May 15, 2018, and hereby incorporated by reference. |
| 10.25 | Warrant, dated as of May 11, 2018, between Registrant and Partners for Growth V, L.P., filed as Exhibit 10.42 to the Form 10-Q filed on May 15, 2018, and hereby incorporated by reference. |
| 10.26 | Promissory Note between Registrant and Mark D. Burish, dated January 4, 2019, filed as Exhibit 10.1 to the Form 8-K filed on January 8, 2019, and hereby incorporated by reference. |
| 10.27 | Promissory Note between Registrant and Mark D. Burish, dated January 31, 2019, effective upon receipt of funds on February 5, 2019, filed as Exhibit 10.1 to the Form 8-K filed on February 12, 2019, and hereby incorporated by reference. |
| 10.28 | Promissory Note between Registrant and Mark D. Burish, dated February 14, 2019, filed as Exhibit 10.1 to the Form 8-K filed on February 20, 2019, and hereby incorporated by reference. |
| 10.29 | Note Purchase Agreement between the Company and Mark Burish, dated February 28, 2019, filed as Exhibit 10.1 to the Form 8-K filed on March 6, 2019, and hereby incorporated by reference. |
| 10.30 | Warrant between the Company and Mark Burish, dated February 28, 2019, filed as Exhibit 10.2 to the Form 8-K filed on March 6, 2019, and hereby incorporated by reference. |
| 10.31 | Consent, Waiver & Modification to Loan and Security Agreement between Sonic Foundry, Inc. and Partners for Growth V, L.P., dated March 11, 2019, filed as Exhibit 10.1 to the Form 8-K filed on March 12, 2019, and hereby incorporated by reference. |
| 10.32 | Employment Agreement dated April 22, 2019 between Sonic Foundry, Inc. and Michael Norregaard, filed as Exhibit 10.1 to the Form 8-K filed on April 24, 2019, and hereby incorporated by reference. |
| 10.33 | Retirement and Transition Agreement dated April 22, 2019 between Sonic Foundry, Inc. and Gary Weis, filed as Exhibit 10.2 to the Form 8-K filed on April 24, 2019, and hereby incorporated by reference. |

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| 10.34 | Retirement and Transition Agreement dated August 5, 2019 between Sonic Foundry, Inc. and Kenneth Minor, filed as Exhibit 10.1 to the Form 8-K filed on August 9, 2019, and hereby incorporated by reference. |
| 10.35 | Amended and Restated Employment Agreement dated as of August 23, 2019 by and between Sonic Foundry, Inc. and Michael Norregaard, filed as Exhibit 10.1 to the Form 8-K filed on August 29, 2019, and hereby incorporated by reference. |
| 10.36 | Note Modification Agreement dated November 22, 2019 between Sonic Foundry, Inc. and Mark Burish, filed as Exhibit 10.36 to the Form 10-Q filed on February 13, 2020, and hereby incorporated by reference. |
| 10.37 | Lease Agreement between Mediasite KK, as tenant, and Sanji Kato, as landlord, dated November 2, 2019, filed with the March 31, 2020 Form 10-Q and hereby incorporated by reference. |
| 10.38 | Lease Agreement between Mediasite KK, as tenant, and Maida Housing Corporation, as landlord, dated April 1, 2014, filed with the March 31, 2020 Form 10-Q and hereby incorporated by reference. |
| 10.39 | Term Loan Agreement dated January 30, 2020 between Mediasite KK and Sumitomo Mitsui Banking, filed with the March 31, 2020 Form 10-Q and hereby incorporated by reference. |
| 10.40 | First Amendment to Note Modification Agreement dated March 24, 2020 between Sonic Foundry, Inc. and Mark Burish, filed with the March 31, 2020 Form 10-Q and hereby incorporated by reference. |
| 10.41 | Term Loan Agreement dated April 20, 2020 between Sonic Foundry, Inc. and First Business bank, filed as Exhibit 10.1 to the Form 8-K filed on April 23, 2020 and hereby incorporated by reference. |
| 10.42 | Debt Conversion Agreement dated May 13, 2020 between Sonic Foundry, Inc. and Mark Burish, filed with the March 31, 2020 Form 10-Q and hereby incorporated by reference. |
| 31.1 | Section 302 Certification of Chief Executive Officer |
| 31.2 | Section 302 Certification of Chief Financial Officer |
| 32 | Section 906 Certification of Chief Executive Officer and Chief Financial Officer |
| 101 | The following materials from the Sonic Foundry, Inc. Form 10-Q for the quarter ended March 31, 2020 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statement of Comprehensive Income (Loss), (iv) the Condensed Consolidated Statements of Stockholders' Deficit, (v) the Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements. |

Registrant will furnish upon request to the Securities and Exchange Commission a copy of all exhibits, annexes and schedules attached to each contract referenced in item 10.

* Compensatory Plan or Arrangement

***SIGNATURES***

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sonic Foundry, Inc.
(Registrant)

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|---|---|---|
| August 13, 2020 | By: | /s/ Michael Norregaard<br>Michael Norregaard<br>Chief Executive Officer |
| August 13, 2020 | By: | /s/ Kelsy L. Boyd<br>Kelsy L. Boyd<br>Chief Financial Officer |

Exhibit 31.1

CERTIFICATIONS

I, Michael Norregaard, the CEO of Sonic Foundry, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonic Foundry, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2020

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| By: | /s/ Michael Norregaard |
| By: | Michael Norregaard |
| Title: | Chief Executive Officer |

Exhibit 31.2

I, Kelsy L. Boyd, the CFO of Sonic Foundry, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonic Foundry, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2020

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| By: | /s/ Kelsy L. Boyd |
| By: | Kelsy L. Boyd |
| Title: | Chief Financial Officer |

SECTION 906 CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Exhibit 32

Statement

Solely for the purposes of complying with 18 U.S.C.§1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and the Chief Financial Officer of Sonic Foundry, Inc. (the “Company”), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2020

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| By: | /s/ Michael Norregaard |
| By: | Michael Norregaard |
| Title: | Chief Executive Officer |

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| By: | /s/ Kelsy L. Boyd |
| By: | Kelsy L. Boyd |
| Title: | Chief Financial Officer |