

SONIC FOUNDRY INC  
Form DEFR14A  
January 31, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under § 240.14a-12

**SONIC FOUNDRY, INC.**

(Name of Registrant as Specified In Its Charter)

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

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**EXPLANATORY NOTE**

We are filing this revised definitive proxy statement to correct an inadvertent transposition of Items 3 and 4 in the body of the original definitive proxy statement. The notice of annual meeting and the second page of the original definitive proxy statement we filed with the Securities and Exchange Commission on January 27 correctly listed the vote on the proposal to amend the 2008 Sonic Foundry Employee Stock Purchase Plan and the vote on the proposal to amend the 2009 Stock Incentive Plan as Items 3 and 4, respectively, but incorrectly transposed such items on pages 21-30. We will print and distribute to our stockholders this revised definitive proxy statement in lieu of the original definitive proxy statement.

**SONIC FOUNDRY, INC.**

**222 West Washington Avenue**

**Madison, Wisconsin 53703**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held March 6, 2014**

The Annual Meeting of Stockholders of **SONIC FOUNDRY, INC.**, a Maryland corporation ( Sonic ) will be held at the Monona Terrace Community and Convention Center, One John Nolen Drive, Madison, Wisconsin 53703 on March 6, 2014 at 9:00 a.m. local time, for the following purposes:

1. To elect two directors to hold office for a term of five years, and until their successors are duly elected and qualified.
  2. To approve, by a non-binding advisory vote, of the compensation paid by the Company to its Named Executive Officers;
  3. To vote on a Proposal to amend the 2008 Sonic Foundry Employee Stock Purchase Plan to increase the number of shares of common stock subject to the plan from 100,000 to 150,000.
  4. To vote on a Proposal to amend the 2009 Stock Incentive Plan to increase the number of shares of common stock subject to the plan from 1,000,000 to 1,800,000.
  5. To ratify the appointment of Grant Thornton LLP as our independent auditors for the fiscal year ending September 30, 2014.
  6. To vote on a proposal to approve an amendment to the Company's Amended and Restated Articles of Incorporation that would provide for lowering the number of director classes from five (5) to three (3) and for shortening the term of directors to three (3) years.
  7. To transact such other business as may properly come before the meeting or any adjournments thereof.
- All the above matters are more fully described in the accompanying Proxy Statement.

Only holders of record of Common Stock at the close of business on January 10, 2014 are entitled to notice of, and to vote at, this meeting or any adjournment or adjournments thereof.

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

By Order of the Board of Directors,

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Madison, Wisconsin  
January 31, 2014

Kenneth A. Minor  
Secretary

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

**SONIC FOUNDRY, INC.**

**222 W. Washington Avenue**

**Madison, Wisconsin 53703**

January 31, 2014

**PROXY STATEMENT**

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

**FOR** the election of David C. Kleinman and Paul S. Peercy as Directors for a term expiring in 2019;

**FOR** approval, by a non-binding advisory vote, of the compensation paid by the Company to its Named Executive Officers;

**FOR** approval of a proposal to amend the 2008 Sonic Foundry Employee Stock Purchase Plan to increase the number of shares of common stock subject to the plan from 100,000 to 150,000.

**FOR** approval of a proposal to amend the 2009 Stock Incentive Plan to increase the number of shares of common stock subject to the plan from 1,000,000 to 1,800,000.

**FOR** the ratification of the appointment of Grant Thornton LLP as independent auditors of Sonic for the fiscal year ending September 30, 2014.

**FOR** approval of a proposal to approve an amendment to the Company's Amended and Restated Articles of Incorporation that would provide for lowering the number of director classes from five (5) to three (3) and for shortening the term of directors to three (3) years.

In the event that the nominees for director become unavailable to serve, which management does not anticipate, the persons named in the proxy reserve full discretion to vote for any other persons who may be nominated. Proxies may also be authorized by telephone or over the Internet by following the instructions on the proxy card. Any stockholder giving a proxy may revoke the same at any time prior to the voting of such proxy. This Proxy Statement and the accompanying proxy are being mailed on or about February 5, 2014.

Each stockholder will be entitled to one vote for each share of Common Stock standing in his or her name on our books at the close of business on January 10, 2014 (the Record Date ). Only holders of issued and outstanding shares of Sonic's common stock as of the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting, including any adjournment or postponement thereof. On that date, we had outstanding and entitled to vote 4,229,543 shares of Common Stock, held by approximately 5,200 stockholders, of which approximately 5,000 were held in street name.

**QUORUM; VOTES REQUIRED**

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspector of elections appointed for the Annual Meeting and will determine whether or not a quorum is present. Where, as to any matter submitted to the stockholders for a vote, proxies are marked as abstentions (or stockholders appear in person but abstain from voting), such abstentions will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but will not be treated as present and entitled to vote for any other purpose. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter and has not received instructions from the beneficial owner, which is known as a broker non-vote, such shares will also be considered present for purposes of a quorum, provided that the broker exercises discretionary authority on any other matter in the Proxy. A majority of the shares of Common Stock issued, outstanding and entitled to vote at the Annual Meeting, present in person or represented by proxy, shall constitute a quorum at the Annual Meeting. The election of the Directors requires a plurality of the votes present and entitled to vote. Therefore, the directors

who receive the two highest vote totals will be elected. Neither an abstention nor a withheld vote will affect the outcome of the election. The non-binding advisory vote of the compensation paid by the Company to its Named Executive Officers and the ratification of the appointment of Grant Thornton LLP requires the affirmative vote of the holders of a majority of the votes cast at the Annual Meeting. If you abstain or withhold your vote on these proposals, it will have no effect on the outcome of such proposals. The vote to amend the 2009 Stock Incentive Plan and the vote to amend the 2008 Employee Stock Purchase Plan requires an affirmative vote of a majority of the outstanding shares present and entitled to vote thereon. If you are present and entitled to vote but abstain from voting or withhold your vote on these proposals, it will have the effect of being voted against the proposals. The vote to approve an amendment to the Company's Amended and Restated Articles of Incorporation requires a two-thirds vote of the shares entitled to vote thereon. If you abstain from voting or withhold your vote on this proposal, it will have the effect of being voted against the proposal.

The New York Stock Exchange ( NYSE ) has rules that govern brokers who have record ownership of listed company stock held in brokerage accounts for their clients who beneficially own the shares. Under these rules, brokers who do not receive voting instructions from their clients have the discretion to vote uninstructed shares on certain discretionary matters but do not have discretion to vote uninstructed shares as to certain other non-discretionary matters. A broker may return a proxy card on behalf of a beneficial owner from whom the broker has not received instructions that casts a vote with regard to discretionary matters but expressly states that the broker is not voting as to non-discretionary matters. The broker's inability to vote with respect to the non-discretionary matters with respect to which the broker has not received instructions from the beneficial owner is referred to as a broker non-vote . Under current NYSE interpretations, the proposal to ratify the appointment of Grant Thornton, LLP as our independent auditor is considered a discretionary matter, while the non-binding advisory vote of the compensation paid by the Company to its named executive officers, the proposal to amend the 2008 Stock Purchase Plan, the proposal to amend the 2009 Stock Incentive Plan, and the proposal to amend the Amended and Restated Articles of Incorporation are considered non-discretionary matters.

#### DATE, TIME AND PLACE OF ANNUAL MEETING

The Annual Meeting will be held on March 6, 2014 at 9:00 a.m. (Central time) at the Monona Terrace Community and Convention Center, One John Nolen Drive, Madison, Wisconsin 53703.

#### **PROPOSAL ONE: ELECTION OF DIRECTORS**

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

Our Amended and Restated Articles of Incorporation provide that the number of directors, which shall constitute the whole Board of Directors, shall be not be less than three or more than twelve. Our currently authorized number of directors is seven. The seats on the Board of Directors currently held by David C. Kleinman and Paul S. Percy are designated as Class I Board seats, with terms expiring as of the Annual Meeting. The Board of Directors has nominated David C. Kleinman and Paul S. Percy as Class I Directors for election at the Annual Meeting.

If elected at the Annual Meeting, Msrs. Kleinman and Percy would serve until the 2019 Annual Meeting and until their successors are elected and qualified or until their earlier death, resignation or removal.



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**Nominees for Director for a Five-Year term expiring on the 2019 Annual Meeting**

**David C. Kleinman**

Mr. Kleinman, age 78, has been a Director of Sonic since December 1997 and has taught at the Chicago Booth School of Business at the University of Chicago since 1971, where he is now Adjunct Professor of Strategic Management. Mr. Kleinman was a Director (trustee) of the Columbia Acorn Trust, and its predecessors from 1972 to December 2010 (where he was a member of the Committee on Investment Performance and past chair, a member and past chair of the Audit Committee and a member of the Compliance Committee); a Director (trustee) of the Wanger Advisors Trust from 2005 to December 2010; a Director and non-executive chair of the Board since 1984 of North Lime Holdings and its wholly owned subsidiary, Irex Corporation, a contractor and distributor of insulation materials; and a Director since 1993 of Plymouth Tube Company, a manufacturer of metal tubing and metal extrusions (where he serves on the Audit Committee). From 1999 to 2006, he was a member of the Advisory Board of DSC Logistics, a logistics management and warehousing firm. From May 1997 to February 2004, Mr. Kleinman served as a Director of AT&T Latin America and predecessor companies, a facilities-based provider of telecom services in Brazil, Argentina, Chile, Peru and Columbia (where he was chair of the Audit Committee and a member of the Compensation Committee). From 1994 to 2005, he was a director of Wisconsin Paper and Products Company, a jobber of paper and paper products. From 1964 to 1971, Mr. Kleinman was a member of the finance staff of the Ford Motor Company. Mr. Kleinman received a MS degree in Mathematics and a PHD in Business from the University of Chicago.

**Paul S. Peercy**

Mr. Peercy, age 73, has been a Director of Sonic since February 2004. Mr. Peercy served as dean of the University of Wisconsin-Madison College of Engineering from September 1999 until April 2013. Since 2001 Mr. Peercy has been a member of the National Academy of Engineering. In 2000, then-Wisconsin Governor Tommy Thompson named Mr. Peercy to the Wisconsin Technology and Entrepreneurship Council. From August 1995 to September 1999, Mr. Peercy served as president of SEMI/SEMATECH, an Austin, Texas-based non-profit consortium of more than 160 of the nation's suppliers to the semiconductor industry. Prior to that position he was director of Microelectronics and Photonics at Sandia National Laboratories in Albuquerque, New Mexico. He is the author or co-author of more than 175 technical papers and the recipient of two patents. Mr. Peercy is a Director and member of the audit committee of Bemis Company, Inc, a manufacturer of flexible packaging and pressure sensitive materials. Mr. Peercy received a BA degree in Physics from Berea College and MS and PhD degrees in Physics from the University of Wisconsin Madison.

**The members of the Board of Directors unanimously recommend a vote FOR the election of Mssrs. Kleinman and Peercy as Class I Directors.**

**DIRECTORS CONTINUING IN OFFICE**

**Mark D. Burish**

**Term Expires in 2015**

Mr. Burish, age 60, is a founder and shareholder of the law firm of Hurley, Burish & Stanton, Madison, WI, which he helped start in 1983. He is the founder and CEO of Our House Senior Living, LLC, Milestone Senior Living, LLC and Milestone Management Services, LLC which he started in 1997. Mr. Burish received his BA degree in communications from Marquette University in 1975 and his JD degree from the University of Wisconsin in 1978.

**Frederick H. Kopko, Jr.**

**Term Expires in 2016**

Frederick H. Kopko, age 58, served as Sonic Foundry's Secretary from April 1997 to February 2001 and has been a Director since December 1995. Mr. Kopko is a partner of the law firm of McBreen & Kopko, Chicago, Illinois, and has been a partner of that firm since January 1990. Mr. Kopko practices in the area of corporate law. He is the Managing Director, Neltjeberg Bay Enterprises LLC, a merchant banking and business consulting firm and has been a Director of Mercury Air Group, Inc. since 1992. Mr. Kopko received a B.A. degree in Economics from the University of Connecticut, a J.D. degree from the University of Notre Dame Law School and an M.B.A. degree from the University of Chicago.

**Michael H. Janowiak**

**Term Expires in 2017**

Mr. Janowiak, age 50, has been a director of Sonic since April 2011 and is a Principal at Pinnacle Investments, a boutique private equity and financial consulting group. He has over twenty years of experience in the information industry, with focus on education, training, research publications and trade conferences for professionals in the communications and semiconductor sectors. Mr. Janowiak was President of the International Engineering Consortium (IEC)'s online learning and publishing group, co-founder and Principal of Professional Education International (PEI), where in concert with academia and companies such as Microsoft he led product development of online training and education. He has served on the Board of Directors of Mercury Air Group from September 2002 until September 2005, the Advisory Board of the Midtown Foundation since January 2001, as Industry Advisor to the Illinois Institute of Technology since January 1999, as the Subsidiary Director of CIB Marine Bancshares since November 2001, as member of Liquio Corporation since August 2002, and as member of the Advisory Board of Idynta Systems since December 2001. Janowiak was the co-founder and president of HRDRive, Inc., which is the North American subsidiary of SMR technologies, a publicly-traded, human resources software company based in Kuala Lumpur, Malaysia and Chennai, India. Mr. Janowiak attended the University of Arizona's Business School and the Stanford University Executive Program.

**Gary R. Weis**

**Term Expires in 2018**

Mr. Weis, age 66, has been Chief Executive Officer since March 2011, Chief Technology Officer since September 2011 and a Director of Sonic since February 2004. Prior to joining Sonic, he served as President, Chief Executive Officer and a Director of Cometa Networks, a wireless broadband Internet access company from March 2003 to April 2004. From May 1999 to February 2003 he was Senior Vice President of Global Services at AT&T where he was responsible for one of the world's largest data and IP networks, serving more than 30,000 businesses and providing Internet access to more than one million individuals worldwide. While at AT&T, Mr. Weis also was CEO of Concert, a joint venture between AT&T and British Telecom. Previously, from January 1995 to May 1999 he was General Manager of IBM Global Services, Network Services. Mr. Weis served as a Director from March 2001 to February 2003 of AT&T Latin America, a facilities-based provider of telecom services in Brazil, Argentina, Chile, Peru and Columbia. Mr. Weis earned BS and MS degrees in Applied Mathematics and Computer Science at the University of Illinois, Chicago.

**Brian T. Wiegand**

**Term Expires in 2018**

Mr. Wiegand, age, 45, has been a director of the Company since July 2012, and is a serial entrepreneur who successfully founded and sold several internet-based companies. He is currently the founder and CEO of Hopster, a company that links digital marketing efforts with real-world shopping behavior by rewarding consumer purchase loyalty, engagement and advocacy. Mr. Wiegand co-founded and served as executive chair of the board of Alice.com, an online retail platform that connects manufacturers and consumers in the consumer packaged goods market. Alice.com filed for receivership in August 2013. Prior to Alice.com, Mr. Wiegand co-founded Jellyfish.com, a shopping search engine, in June of 2006. He served as CEO until October 2007 when the company was sold to Microsoft. Mr. Wiegand continued with Microsoft as the General Manager of Social Commerce until May 2008. He also co-founded NameProtect, a trademark research and digital brand protection services company in August 1997 which was sold to Corporation Services Company in March 2007. In addition, Mr. Wiegand founded BizFilings in 1996, the Internet's leading incorporation Services Company. He served as the president and CEO until 2002 when the company was acquired by Wolters Kluwer. Mr. Wiegand attended the University of Wisconsin - Madison.

When considering whether the Board of Directors and nominees thereto have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Board of Directors focused primarily on the information

discussed in each of the Board members' biographical information set forth above. Each of the Company's directors possess high ethical standards, act with integrity and exercise careful, mature judgment. Each is committed to employing his skills and abilities to aid the long-term interests of the stakeholders of the Company. In addition, each of our directors has exhibited judgment and skill, and has either been actively involved with the Company for a considerable period of time or has experience with other organizations of comparable or greater size. In particular, Mr. Kopko has had extensive experience with companies comparable in size to Sonic Foundry, including serving as a director of Mercury Air Group, Inc. and fills a valuable need with experience in securities and other business law. Mr. Weis has had experience in both developing and established companies, having served as a CEO and Director of Cometa Networks and in several positions at AT&T and IBM, including Senior Vice President of Global Services. While at AT&T, Weis also was CEO of Concert, a joint venture between AT&T and British Telecom. Mr. Weis has served as CEO of the Company since March 2011. Mr. Kleinman has significant experience serving on boards of directors of various companies and has significant experience in finance and strategic management through his employment with the Chicago Booth School of Business at the University of Chicago where he also obtained valuable market insight to the Company's largest customer base. Mr. Percy shares that same market expertise through his service at the University of Wisconsin in his role as Dean of the engineering school and also has significant business and technical experience obtained at positions including his role as director of Microelectronics and Photonics at Sandia National Laboratories and through his role as president of SEMI/SEMATECH. Mr. Burish brings additional valuable legal experience to the Board as well as experience obtained through founding multiple companies. Mr. Janowiak brings valuable experience with his deep connections to the on-line education industry, and with his previous involvement on the boards of public companies. Mr. Wiegand has significant experience in founding and operating technology companies and building brand awareness with both businesses and consumers.

## CORPORATE GOVERNANCE

### Director Independence

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

### Related Person Transaction

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

Under the Policy, each of our directors and executive officers must notify the Chairman of the Audit Committee in writing of any new potential Related Person Transaction involving such person or an immediate family member. The Audit Committee will review the relevant facts and circumstances and will approve or ratify the transaction only if it determines that the transaction is not inconsistent with, the best interests of the Company. The Related Party Transaction must then be approved by the independent directors. In determining whether to approve or ratify a Related Person Transaction, the Audit Committee and the independent directors may consider, among other things,

the benefits to the Company; the impact on the director's independence (if the Related Person is a director or an immediate family member); the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally. There were no new Related Person Transactions in the fiscal year ended September 30, 2013 ( Fiscal 2013 ).

### **Board Leadership Structure and Role in Risk Oversight**

In fiscal 2011 the Company separated the positions of Chairman of the Board and Chief Executive Officer. Mark D. Burish serves as Non-Executive Chairman of the Board and Gary R. Weis serves as our Chief Executive Officer and Chief Technical Officer. The Company believes that separating the positions provides an appropriate leadership structure.

Our business and affairs are managed under the direction of our board, which is the Company's ultimate decision-making body, except with respect to those matters reserved to our stockholders. Our Board's key mission is to maximize long-term stockholder value. Our Board establishes our overall corporate policies, selects and evaluates our executive management team (which is charged with the conduct of our business), and acts as an advisor and counselor to executive management. Our board also oversees our business strategy and planning, as well as the performance of management in executing its business strategy and assessing and managing risks.

#### ***What is the Board's role in risk oversight?***

The board takes an active role in monitoring and assessing the Company's risks, which include risks associated with operations, credit, financing and capital investments. Management is responsible for the Company's day-to-day risk management activities and our board's role is to engage in informed risk oversight. Management, through its disclosure committee, compiles an annual ranking of risks to which the Company could be subjected and reviews the results of this risk assessment with the audit committee. Any significant risks are then reviewed by the board and assigned for oversight. In fulfilling this oversight role, our board focuses on understanding the nature of our enterprise risks, including our operations and strategic direction, as well as the adequacy of our risk management process and overall risk management system. There are a number of ways our board performs this function, including the following:

at its regularly scheduled meetings, the board receives management updates on our business operations, financial results and strategy and discusses risks related to the business;

the audit committee assists the board in its oversight of risk management by discussing with management, particularly, the Chief Financial Officer, our guidelines and policies regarding financial and enterprise risk management and risk appetite, including major risk exposures, and the steps management has taken to monitor and control such exposures; and

through management updates and committee reports, the board monitors our risk management activities, including the annual risk assessment process, risks relating to our compensation programs, and financial and operational risks being managed by the Company.

The board of directors also has oversight responsibility for risks and exposures related to employee compensation programs and management succession planning, and assesses whether the organization's compensation practices encourage risk taking that would have a material adverse effect on the Company. The compensation committee periodically reviews the structure and elements of our compensation programs and its policies and practices that manage or mitigate such risk, including the balance of short-term and long-term incentives, use of multiple performance measures, and a multi-year vesting schedule for long-term incentives. Based on these reviews, the committee believes our compensation programs do not encourage excessive risk taking.

## Board Structure and Meetings

The Board met five times during Fiscal 2013. The Board also acted by written consent from time to time. All directors attended at least 75% of the total number of Board meetings and committee meetings on which they serve (during the period in which each director served). In addition, NASDAQ marketplace rules contemplate that the independent members of our Board will meet during the year in separate closed meetings referred to as executive sessions without any employee director or executive officer present. Executive sessions were usually held after regularly scheduled Board meetings during Fiscal 2013.

The Board of Directors has five standing committees, the Audit Committee, the Executive Compensation Committee, the New Markets Committee, the Governance Committee and the Nominations Committee.

Sonic has a standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Members of the Audit Committee are Messrs. Kleinman (chair), Burish and Janowiak. Sonic's Board of Directors has determined that all members of Sonic's Audit Committee are independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act and as defined under Nasdaq listing standards. The Audit Committee provides assistance to the Board in fulfilling its oversight responsibility including: (i) internal and external financial reporting, (ii) risks and controls related to financial reporting, and (iii) the internal and external audit process. The Audit Committee is also responsible for recommending to the Board the selection of our independent public accountants and for reviewing all related party transactions. The Audit Committee met five times in Fiscal 2013. A copy of the charter of the Audit Committee is available on Sonic's website.

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

The Compensation Committee consists of Messrs. Kleinman (chair), Burish and Janowiak. The Board of Directors has determined that all of the members of the Compensation Committee are independent as defined under Nasdaq listing standards. The Compensation Committee makes recommendations to the Board with respect to salaries of employees, the amount and allocation of any incentive bonuses among the employees, and the amount and terms of stock options to be granted to executive officers. The Compensation Committee met once in Fiscal 2013. A copy of the charter of the Compensation Committee is available on Sonic's website.

The New Markets Committee consists of Messrs. Percy (chair) and Kleinman. The New Markets Committee was established on January 24, 2013 to assist management in developing new market entry plans, providing access to contacts that may facilitate entry, assessing risk and monitoring outcomes.

The Governance Committee consists of Messrs. Burish (chair), Kopko and Percy. The Governance Committee was established on January 24, 2013 to consider board terms and other governance issues related to enhancing shareholder value.

The Nominations Committee consists of Messrs. Percy (chair), Burish, Janowiak and Kleinman. The Board of Directors has determined that all of the members of the Nominations Committee are independent as defined under Nasdaq listing standards. The purpose of the Nominations Committee is to evaluate and recommend candidates for election as directors, make recommendations concerning the size and composition of the Board of Directors, develop specific criteria for director independence, and assess the effectiveness of the Board of Directors. Our Board of Directors has adopted a charter for the Nominations Committee, which is available on Sonic's website. The Nominations Committee will review all candidates in the same manner regardless of the source of the recommendation.

In recommending candidates for election to the Board of Directors, the Nominations Committee reviews each candidate's qualifications, including whether a candidate possesses any of the specific qualities and skills desirable in certain members of the Board of Directors. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates as appropriate. Generally the Nominations Committee will consider various criteria in considering whether to make a recommendation. These criteria include expectations that directors have substantial accomplishments in their professional backgrounds and are able to make independent, analytical inquiries and exhibit practical wisdom and mature judgment. Director candidates should possess the highest personal and professional ethics, integrity and values, be committed to promoting the long-term interest of our stockholders and be able and willing to devote the necessary time to carrying out their duties and responsibilities as members of the Board. While the Board of Directors has not adopted a policy regarding diversity, we also believe our directors should come from diverse backgrounds and experience bases in order to promote the representation of diverse views on the Board of Directors. Stockholder recommendations of candidates for Board membership will be considered when submitted to Corporate Secretary, Sonic Foundry, Inc., 222 W. Washington Ave., Madison, WI 53703. When submitting candidates for nomination to be elected at Sonic's annual meeting of stockholders, stockholders must also follow the notice procedures and provide the information required by Sonic's bylaws.

In particular, for a stockholder to nominate a candidate for election at the 2015 Annual Meeting of Stockholders, the nomination must be delivered or mailed to and received by Sonic's Secretary between November 6, 2014 and December 6, 2014 (or, if the 2015 annual meeting is advanced by more than 30 days or delayed by more than 60 days from March 6, 2015, not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth calendar day following the date on which public announcement of the date of the annual meeting is first made). The nomination must include the same information as is specified in Sonic's bylaws for stockholder nominees to be considered at an annual meeting, including the following:

- The stockholder's name and address and the beneficial owner, if any, on whose behalf the nomination is proposed;
- The stockholder's reason for making the nomination at the annual meeting, and the signed consent of the nominee to serve if elected;
- The number of shares owned by, and any material interest of, the record owner and the beneficial owner, if any, on whose behalf the record owner is proposing the nominee;
- A description of any arrangements or understandings between the stockholder, the nominee and any other person regarding the nomination; and
- Information regarding the nominee that would be required to be included in Sonic's proxy statement by the rules of the Securities and Exchange Commission, including the nominee's age, business experience for the past five years and any other directorships held by the nominee.

#### **DIRECTORS COMPENSATION**

Our directors who are not also our full-time employees, receive an annual retainer of \$20,000 in addition to a fee of \$1,500 for attendance at each meeting of the Board of Directors and \$1,000 per committee meeting attended. In addition, Mr. Kleinman receives an Audit Committee annual retainer of \$8,000 and a Compensation Committee annual retainer of \$3,000 for his services as chairman of each committee and Mr. Burish receives an annual retainer of \$35,000 as compensation for his services as Chairman of the Board of Directors. Mr. Percy received an annual retainer of \$10,000 for his services as chairman of the New Markets Committee and Mr. Kleinman received an annual retainer of \$3,000 for his services as a member of the New Markets Committee in fiscal 2013. Members of the New Markets Committee will not receive a retainer going forward. The cash compensation paid to the five non-employee directors combined in Fiscal 2013 was \$249,000. When traveling from out-of-town, the members of the Board of Directors are also eligible for reimbursement for their travel expenses incurred in connection with attendance at Board meetings and Board Committee meetings. Directors who are also employees do not receive any compensation for their participation in Board or Board Committee meetings.

Pursuant to the 2008 Sonic Foundry Non-Employee Amended Directors Stock Option Plan (the Directors Plan ) we grant to each non-employee director who is reelected or who continues as a member of the Board of Directors at each annual stockholders meeting a stock option to purchase 2,000 shares of Common Stock. Further, the chair of our Audit Committee receives an additional stock option grant to purchase 500 shares of Common Stock per year pursuant to Sonic s Non-Employee Amended Directors Stock Option Plan.

The exercise price of each stock option granted was equal to the market price of Common Stock on the date the stock option was granted. Stock options issued under the Directors Plan vest fully on the first anniversary of the date of grant and expire after ten years from date of grant. An aggregate of 100,000 shares are reserved for issuance under the Directors Plan.

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

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

The following table summarizes cash and equity compensation provided our non-employee directors during the fiscal year ended September 30, 2013.

Name	Fees Earned Or Paid In Cash (\$)(1) (b)	Stock Awards (\$) (c)	Option Awards \$(2) (d)	Non-Equity Incentive Plan Compen- sation (\$) (e)	Change in Pension Value and Non-qualified Deferred Compen- sation Earnings (\$) (f)	All Other Compensation (\$) (g)	Total (\$) (h)
Mark D. Burish	70,500		3,060				73,560
Michael H. Janowiak	34,500		3,060				37,560
David C. Kleinman	48,500		3,825				52,325
Frederick H. Kopko	28,500		3,060				31,560
Paul S. Peercy	39,500		3,060				42,560
Brian T. Wiegand	27,500		3,060				30,560

(1) The amount reported in column (b) is the total of retainer fees and meeting attendance fees.

(2) The amount reported in column (d) is the aggregate grant date fair value of options granted during the fiscal year ended September 30, 2013 in accordance with FASB ASC Topic 718. Each director, received an option award of 2,000 shares on March 7, 2013 at an exercise price of \$6.92 with a grant date fair value of \$3,060. In addition, Mr. Kleinman received a grant of 500 shares on March 7, 2013 at an exercise price of \$6.92 with a grant date fair value of \$765 in connection with his position as chair of the Audit Committee.

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### EXECUTIVE OFFICERS OF SONIC

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

**Gary R. Weis** serves as both our Chief Executive and Chief Technology Officer. (See Directors Continuing in Office .)

**Kenneth A. Minor**, age 51, has been our Chief Financial Officer since June 1997, Assistant Secretary from December 1997 to February 2001 and Secretary since February 2001. From September 1993 to April 1997, Mr. Minor was employed as Vice President and Treasurer for Fruehauf Trailer Corporation, a manufacturer and global distributor of truck trailers and related aftermarket parts and service where he was responsible for financial, treasury and investor relations functions. Prior to 1993, Mr. Minor served in various senior accounting and financial positions for public and private corporations as well as the international accounting firm of Deloitte Haskins and Sells. Mr. Minor is a certified public accountant and has a B.B.A. degree in accounting from Western Michigan University.

**Robert M. Lipps**, age 42, has been Executive Vice President of Sales since April 2008, joining Sonic Foundry in April 2006 as Vice President of International Sales and assuming expanded responsibility for U.S. central sales in 2007. Mr. Lipps leads the company's global sales organization including oversight of domestic, international and channel sales. He holds 15 years of sales leadership, business development and emerging market entry expertise in the technology and manufacturing sectors, including sales and channel management. From January 2004 to March 2006 he served as General Manager of Natural Log Homes LLC, a New Zealand based manufacturer of log homes. From July 1999 to Dec 2002 he served as Latin America Regional Manager of Adaytum, a software publisher of planning and performance management solutions, (acquired by Cognos Software, an IBM Company, in January 2003) and from May 1996 to July 1999 he served as International Sales Manager for Persoft, a software publisher of host access and mainframe connectivity solutions (acquired by Esker software in 1998). Mr. Lipps has a B.S. degree in Marketing from the University of Wisconsin at La Crosse.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows information known to us about the beneficial ownership of our Common Stock as of January 10, 2014, by each stockholder known by us to own beneficially more than 5% of our Common Stock, each of our executive officers named in the Summary Compensation Table ( Named Executive Officers ), each of our directors, and all of our directors and executive officers as a group. Unless otherwise noted, the mailing address for these stockholders is 222 West Washington Avenue, Madison, Wisconsin 53703.

Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting or investment power with respect to shares. Shares of common stock issuable upon the exercise of stock options or warrants exercisable within 60 days after January 10, 2014, which we refer to as Presently Exercisable Options, are deemed outstanding for computing the percentage ownership of the person holding the options but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. The inclusion of any shares in this table does not constitute an admission of beneficial ownership for the person named below.



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Name of Beneficial Owner(1)	Number of Shares of Class Beneficially Owned	Percent of Class(2)
<b>Common Stock</b>		
Wealth Trust Axiom LLC (3)		
4 Radnor Corp Center, suite 520		
Radnor PA 19087		
	354,456	8.4%
Mark D. Burish(4)		
33 East Main St.		
Madison, WI 53703		
	270,795	6.4
Andrew D. Burish(5)		
8020 Excelsior Drive		
Madison, WI, 53717		
	250,000	5.9
Gary R. Weis(6)		
	140,166	3.3
Kenneth A. Minor(7)		
	95,935	2.2
Robert M. Lipps(8)		
	77,111	1.8
Frederick H. Kopko, Jr.(9)		
29 South LaSalle Street		
Chicago, IL 60603		
	44,627	1.1
David C. Kleinman(10)		
1101 East 58th Street		
Chicago, IL 60637		
	35,000	*
Paul S. Peercy(11)		
1415 Engineering Dr		
Madison, WI 53706		
	22,040	*
Brian T. Wiegand (12)		
8215 Greenway Blvd., Suite 340		
Middleton, WI 53562		
	16,000	*
Michael H. Janowiak(13)		
	6,000	*

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6688 Joliet Road

Countryside, IL 60525

All current Executive Officers and Directors as a Group (9 persons)(14)	707,674	15.6%
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\* less than 1%

- (1) Sonic believes that the persons named in the table above, based upon information furnished by such persons, except as set forth in notes (3) and (5) where such information is based on a Schedule 13G, have sole voting and dispositive power with respect to the number of shares indicated as beneficially owned by them.
- (2) Applicable percentages are based on 4,229,543 shares outstanding, adjusted as required by rules promulgated by the Securities and Exchange Commission.

- (3) Information is based on Schedule 13G filed on February 1, 2013 by Albert C. Matt, President of Wealth Trust Axiom LLC. Based on such information, Wealth Trust Axiom LLC has sole dispositive power but not sole voting power with respect to such shares.
- (4) Includes 8,000 shares subject to Presently Exercisable Options.
- (5) Information is based on Schedule 13G filed on February 6, 2013
- (6) Includes 80,666 shares subject to Presently Exercisable Options.
- (7) Consists of 68,786 shares subject to Presently Exercisable Options.
- (8) Includes 75,036 shares subject to Presently Exercisable Options.
- (9) Includes 16,000 shares subject to Presently Exercisable Options.
- (10) Includes 25,000 shares subject to Presently Exercisable Options.
- (11) Includes 22,000 shares subject to Presently Exercisable Options.
- (12) Includes 4,000 shares subject to Presently Exercisable Options.
- (13) Includes 6,000 shares subject to Presently Exercisable Options.
- (14) Includes an aggregate of 305,488 Presently Exercisable Options.

### **Compensation Discussion and Analysis**

#### ***Introduction***

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

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

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

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

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

The Committee established performance metrics for each of its Named Executive Officers in fiscal 2013 designed to match Company performance to the amount of incentive compensation paid to such officers following completion of the fiscal year.

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

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

*Market Competitiveness*

The Committee's target is for total cash compensation to average between the 50th and 75th percentile of published compensation data derived from two sources: (i) a peer group of companies that are in our industry, competitors for key talent, or with similar financial characteristics; and (ii) published market survey data for companies within our revenue range. The peer group data was obtained from the most recently filed proxy statement of 13 publicly-traded technology companies with annual revenues ranging from approximately \$10 million to just under \$100 million; market capitalization of \$25 million to approximately \$300 million and approximately 250 employees or fewer. The following companies comprised the peer group for the study: Majesco Entertainment, Bsquare Corporation, Simulations Plus, Adept Technology, Cinedigm Digital Cinema, Procera Networks, GlobalSCAPE, Broadvision, Evolving Systems, Chyron Hego Corporation, FAB Universal, TigerLogic Corporation and GSE Systems. Given competitive recruiting pressures, the Committee retains its discretion to deviate from this target under appropriate circumstances. The Committee periodically receives updates of the published compensation data.

*Pay for Performance*

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

*Competitive Benchmarking/Peer Group Analysis*

The Committee reviewed market data from Towers Watson Data Services dated April 1, 2010 in various size and industry stratifications similar to that of Sonic.

The second source of compensation data came from a peer group of thirteen public companies that we consider similar to our market for sales, or for key talent, or with similar financial or other characteristics such as number of employees. The companies in the peer group are described above.

***Components of Executive Compensation***

*Base Salary*

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

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

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

The Committee considered base wage changes for Messrs. Weis, Minor and Lipps at a meeting of the Committee held on October 28, 2013. Accordingly, base compensation for Mr. Weis was increased from \$397,320 to \$457,320, base pay for Mr. Minor was increased from \$268,428 to \$281,910 and base compensation for Mr. Lipps was increased from \$206,080 to \$226,669. After its review of all sources of market data as described above, the Committee believes that the base salaries and the bonuses described are within its targeted range for total cash compensation.

*Annual Performance-Based Variable Compensation*

The performance-based variable compensation reported for each executive officer represents compensation that was earned based on fiscal 2013 performance. The following describes the methodologies used by the Compensation Committee to determine the final annual performance-based variable compensation earned by each executive officer:

*Selection of Performance Metrics.* For fiscal 2013, the Compensation Committee designed a short-term incentive program ( STIP ) driven by four performance measures that it determined were appropriate to drive desired business behavior for the Company and would correlate positively with total shareholder return. These measures were the Company's results with respect to (1) customer billings, (2) net income, (3) customer satisfaction, and (4) the officer's achievement of certain individual goals. Messrs. Weis, Minor, Lipps and two Non-Executive officers were included in the plan. Mr. Lipps' short term incentive plan included a separate component based solely on the level of customer billings achieved.

*Establishment of Incentive Goals and Payout Approach.* The Compensation Committee designed the relationship between pay and performance to ensure that desired performance would be rewarded with material payouts. Similarly, performance that did not meet the goals would reduce the performance-based variable compensation payout to as low as zero. In setting the performance levels, the Compensation Committee strived to establish challenging but achievable goals. The factors considered by the Compensation Committee in assessing the challenge inherent in the goals included:

Management's internal operating plan; and

Customer satisfaction.

*Payout Based on Performance Against Goals.* For fiscal 2013 the Company's performance, as evaluated by the Compensation Committee, led to the determination that 40% of the STIP performance metrics were achieved and therefore 40% of the target bonus payouts were made under the STIP compensation plan. The STIP earned by Messrs. Weis, Minor and Lipps were \$79,451, \$37,588 and \$24,727, respectively. Total billings based incentives paid to Mr. Lipps during fiscal 2013 was \$77,774 for total incentive payments of \$102,501.

*Stock Options*

The Committee has a long-standing practice of providing long-term incentive compensation grants to the executive officers. The Committee believes that such grants, in the form of stock options, help align our executive officers' interests with those of Sonic's stockholders. All stock options have been granted under our 1995 Stock Option Plan, the 1999 Non-Qualified Plan or the 2009 Stock Incentive Plan ( Employee Plans ). All but the 2009 Stock Incentive Plan are now terminated.

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

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

On October 28, 2013 the Committee awarded Messrs. Weis, Minor and Lipps option grants to purchase 61,500, 33,825 and 33,825 shares of common stock, respectively, effective October 28, 2013 with the strike price equal to the closing price of Sonic's stock on that date, which was \$9.45. Each grant will vest one third each on the first, second and third anniversaries of the grant.

#### *Health and Welfare Benefits*

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

#### *Employment Agreements*

We entered into employment agreements with Kenneth A. Minor in October 2007 and Robert M. Lipps in August 2008. The salaries of each of Messrs. Minor and Lipps are subject to increase each year at the discretion of the Board of Directors. Messrs. Minor and Lipps are also entitled to incidental benefits of employment under the agreements. Each of the employment agreements provides that a cash severance payment be made upon termination, other than for cause. In the case of Mr. Minor, such cash severance is equal to the highest cash compensation paid in any of the last three fiscal years immediately prior to termination and with respect to Mr. Lipps, such cash severance payment is equal to the cash compensation paid in the previous fiscal year immediately prior to termination. In addition, Messrs. Minor and Lipps will receive immediate vesting of all previously unvested common stock and stock options and have the right to voluntarily terminate their employment, and receive the same severance arrangement detailed above following (i) any person becoming a beneficial owner of stock of Sonic Foundry representing 50% or more of the total voting power of Sonic Foundry's then outstanding stock; or, (ii) Sonic Foundry is acquired by another entity through the purchase of substantially all of its assets or securities and following such acquisition, Gary Weis does not remain as Chief Executive Officer of the Board of Directors of Sonic Foundry or the acquisition is without the written consent of the Board of Directors of Sonic Foundry; or (iii) Sonic Foundry is merged with another entity, consolidated with another entity or reorganized in a manner in which any person is or becomes a beneficial owner of stock of the surviving entity representing 50% or more of the total voting power of the surviving entity's then outstanding stock; and Messrs. Minor or Lipps is demoted without cause or his duties are substantially altered. Pursuant to the employment agreements, each of Messrs. Minor and Lipps has agreed not to disclose our confidential information and not to compete against us during the term of his employment agreement and for a period of one year thereafter. Such non-compete clauses may not be enforceable, or may only be partially enforceable, in state courts of relevant jurisdictions.

Effective September 30, 2011, the Company entered into an amended and restated employment agreement with Mr. Weis. Pursuant to the terms of the amended and restated employment agreement, Mr. Weis will receive an annual base salary subject to increase at the discretion of the Board. Mr. Weis may also receive a performance bonus at the discretion of the Board. Mr. Weis in addition will assume duties as are customarily performed by a Chief Technology Officer.

The amended and restated employment agreement will continue in effect until terminated as set forth therein. In the event Mr. Weis's employment is terminated without cause, as defined in the amended and restated employment agreement, or in the event his employment is constructively terminated, Mr. Weis shall be entitled to receive, in equal bi-weekly installments over a one-year period, compensation equal to one and five hundredths (1.05) multiplied by the highest cash compensation paid to Mr. Weis in any of the last three years immediately prior to his termination. In the event of a Change of Control, as defined in the amended and restated employment agreement, Mr. Weis is entitled to terminate the agreement within one year following such Change of Control, in which event he shall be entitled to receive, in a lump sum payable within thirty days of such termination, compensation equal to two and one-tenth (2.1) multiplied by the highest cash compensation paid to Mr. Weis in any of the last three fiscal years immediately prior to his termination. In any of the above events, (i) all of Mr. Weis's unvested stock options and stock grants shall vest immediately upon termination, and (ii) Mr. Weis shall receive health insurance continuation as required by COBRA, salary accrued to the date of termination, and any accrued vacation pay. Mr. Weis has further agreed not to disclose the Company's proprietary information, and, until one year following the termination of his employment agreement, not to compete with the Company or solicit the Company's employees. Such non-compete clause may not be enforceable, or may be only partially enforceable, in state courts of relevant jurisdiction.

For illustrative purposes, if Sonic terminated the employment of Mr. Weis (not for cause) on September 30, 2013, Sonic would be obligated to pay \$495,122, representing 1.05 times the cash compensation paid Mr. Weis during fiscal 2013 and \$990,244 if Mr. Weis elected to terminate his employment on September 30, 2013, following a change of control as defined in the employment agreement. If Sonic terminated Messrs. Minor and Lipps on September 30, 2013, (not for cause), or if Messrs. Minor and Lipps elected to terminate their employment following a demotion or alteration of duties on September 30, 2013, and a change of control as defined in the employment agreements had occurred, Sonic would be obligated to pay \$318,286 and \$307,809, respectively. In addition, any non-vested rights of Messrs. Weis, Minor and Lipps under the Employee Plans, would vest as of the date of employment termination. The value of accelerated vesting of the options under these circumstances would be \$138,000 for Mr. Weis and \$98,000 for both Messrs. Minor and Lipps.

#### *Personal Benefits*

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

#### *Internal Revenue Code Section 162(m)*

Internal Revenue Code Section 162(m) limits the ability of a public company to deduct compensation in excess of \$1 million paid annually to each of the Chief Executive Officer and each of the other executive officers named in the Summary Compensation Table. There are exemptions from this limit, including compensation that is based on the attainment of performance goals that are established by the Committee and approved by the Company stockholders. No executive officer was affected by this limitation in fiscal 2013.

### **COMPENSATION COMMITTEE REPORT**

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

#### COMPENSATION COMMITTEE

David C. Kleinman, Chair

Mark D. Burish

Michael H. Janowiak

### Summary Compensation

The following table sets forth the compensation of our principal executive officer, our principal financial officer and our other two executive officers for the fiscal year ended September 30, 2013.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)(2)	Change in Pension	All Other Compensation	Total (\$)
							Value and Non-qualified Deferred Compensation Earnings (\$)		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Gary R. Weis	2013	395,865			198,560	79,461		13,214	687,100
Chief Executive and	2012	378,400				75,680		6,986	461,066
Chief Technology Officer	2011	170,000			191,880	74,923			436,803
Kenneth A. Minor	2013	267,502			108,800	37,588		16,718	430,608
Chief Financial Officer	2012	255,123			103,400	50,784		16,809	426,116
and Secretary	2011	247,092			98,416	49,144		14,041	408,693
Robert M. Lipps	2013	205,308			108,800	102,501		9,900	426,509
Executive Vice	2012	195,811			103,400	109,911		8,787	417,909
President - Sales	2011	189,696			98,416	101,248		9,072	398,432

- (1) The option awards in column (f) represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for stock options granted during the fiscal year. The assumptions and methodology used in calculating the compensation expense of the option awards are provided in Sonic's Form 10-K. See Note 1, "Stock Based Compensation" in the Notes to the Consolidated Financial Statements in Sonic's Form 10-K. The amounts in this column represent value attributed to the awards at the date of grant and not necessarily the actual value that will be realized by the executive. There can be no assurance that the options will ever be exercised (in which case no value will be realized by the executive) or that the value on exercise will equal the ASC Topic 718 value.
- (2) The amounts in column (g) represent cash bonuses which were awarded for performance during the prior fiscal year based on a pre-established formula.
- (3) The amount shown under column (i) for the fiscal year 2013 includes Sonic's matching contribution under our 401(k) plan of \$13,214, \$10,393 and \$9,900 for Messrs Weis, Minor and Lipps. Mr. Minor receives \$650 per month as a car allowance of which the taxable personal portions were \$6,325. Mr. Lipps receives a car allowance of \$700 per month of which there was no taxable personal portion. Mr. Weis received car and housing allowances totaling \$2,500 per month, of which there was no taxable personal portion.



### Grants of Plan-Based Awards

The Following table shows the plan-based awards granted to the Named Executive Officers during fiscal 2013.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive			Estimated Future Payouts Under Equity Incentive			All other stock awards: Number of Shares of stock or units	All other option awards: Number of Securities Underlying Options	Exercise or base price of option awards (\$/Sh)	Grant Date fair Value of Stock and option awards (\$)
		Threshold	Target	Maximum	Threshold	Target	Maximum				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Gary R. Weis	10/17/12								73,000	7.80	198,560
Kenneth A. Minor	10/17/12								40,000	7.80	108,800
Robert M. Lipps	10/17/12								40,000	7.80	108,800

- (1) Sonic grants employee stock options with exercise prices equal to the closing stock price on the date of grant.
- (2) The amount reported in column (l) represents the grant date fair value of the award following the required FASB ASC Topic 718 compensation methodology. Grant date fair value is calculated using the Lattice method. See Note 1, Stock Based Compensation in the Notes to the Consolidated Financial Statements in Sonic's Form 10-K for the fiscal year ended September 30, 2013 for an explanation of the methodology and assumptions used in FASB ASC Topic 718 valuation. With respect to the option grants, there can be no assurance that the options will ever be exercised (in which case no value will be realized by the executive) or that the value on exercise will equal the FASB ASC Topic 718 value.

Sonic grants options to its executive officers under our employee stock option plans. As of September 30, 2013, options to purchase a total of 997,045 shares were outstanding under the plans, and options to purchase 384,129 shares remained available for grant thereunder.

**Outstanding Equity Awards at Fiscal Year-End**

The following table shows information concerning outstanding equity awards as of September 30, 2013 held by the Named Executive Officers.

Name	<u>Option Awards</u>					<u>Stock Awards</u>			
	Number of Securities Underlying Unexercised Options (#) Exercisable (1)(2)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)(2)	Equity Incentive Plan Awards: Number of Securities Underlying Unearned Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (g)	Market Value of Shares or Units of Stock That Have Not Vested (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (i)	Equity Incentive Plan Awards: Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) (j)
Gary R. Weis	2,000	0	None	19.40	2/9/2014				
	2,000	0		13.40	5/24/2014				
	2,000	0		12.30	5/15/2015				
	2,000	0		17.40	3/15/2016				
	2,000	0		37.60	3/15/2017				
	2,000	0		8.00	3/6/2018				
	5,000	0		5.00	11/3/2018				
	2,000	0		5.50	3/5/2019				
	2,000	0		6.90	3/4/2020				
	2,000	0		14.83	3/3/2021				
	16,667	33,333		8.68	9/30/2021				
	0	73,000		7.80	10/17/2022				
Kenneth A. Minor	5,000	0	None	14.50	11/26/2014				
	12,000	0		15.50	12/04/2017				

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	6,000	0		5.26	12/2/2019
	9,414	4,979		15.21	11/24/2020
	9,167	18,333		9.46	10/24/2021
	0	40,000		7.80	10/17/2022
Robert M. Lipps	2,500	0	None	22.60	04/10/2016
	750	0		37.10	12/07/2016
	1,500	0		15.50	12/04/2017
	2,500	0		7.50	03/10/2018
	10,000	0		7.80	04/16/2018
	6,000	0		5.30	11/10/2018
	6,000	0		5.26	12/2/2019
	9,414	4,979		15.21	11/24/2020
	9,167	18,333		9.46	10/24/2021
	0	40,000		7.80	10/17/2022