SEDONA Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	As of September 30, 2014	As of September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	77	126
Accounts receivable	672	670
Prepaid expenses and other current assets	12	40
Total current assets	$761	$836
Accounts receivable, non-current	725	588
Property and equipment, net	3	4
Other non-current assets	1	1
Total non-current assets	730	594
Total assets	**$1,491**	**$1,430**
Liabilities and stockholders' deficit		
Current liabilities:		
Current maturities of long-term debt, net of discount	8,930	8,740
Accounts payable	211	565
Accrued litigation expenses	599	599
Legal judgments	300	0
Accrued expenses and other current liabilities	4,810	4,245
Deferred and unearned revenue	1027	902
Total current liabilities	$15,877	$15,053
Long-term debt, less current maturities, net of discount		
Deferred and unearned revenue	725	588
Total long-term liabilities	725	588
Total liabilities	**$16,602**	**$15,641**
Stockholders' (deficit):		
Class A convertible preferred stock (liquidation preference $1,000)		
Authorized shares – 1,000,000		
Series A, par value $2.00, Issued and outstanding shares– 500,000	1,000	1,000
Common stock, par value $0.001		
Authorized shares –175,000,000, Issued and outstanding shares –		
129,114,064	129	129
Additional paid-in-capital	73,453	73,453
Accumulated deficit	-89,695	-88,780
Total stockholders' deficit	-15,112	-14,211
Total liabilities and stockholders' deficit	$1,491	$1,430

See accompanying notes to condensed consolidated financial statements.

SEDONA Corporation and Subsidiary
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)

	Nine months ended September 30,	
	2014	**2013**
Revenues:		
Product licenses	535	548
Services	571	667
Total revenues	**1,106**	**1,215**
Cost of revenues:		
Services	205	201
Total cost of revenues	205	201
Gross profit	902	1,014
Expenses:		
General and administrative	305	371
Litigation and Judgment expenses	174	80
Sales, marketing and customer services	326	308
Research and development	232	240
Total operating expenses	1,037	999
Gain(Loss) from operations	**(135)**	**15**
Other expenses:		
Interest expense including debt discount accretion	(549)	(525)
Total other expenses	(549)	(525)
Net loss	**(684)**	**(510)**
Deemed dividends applicable to preferred stockholders	(90)	(90)
Loss applicable to Common Stockholders	**(774)**	**(600)**
Basic and diluted net loss per share applicable to common shares	**(0.01)**	**(0.00)**
Basic and diluted weighted average common shares outstanding	**129,114,064**	**129,114,064**

See accompanying notes to condensed consolidated financial statements.

SEDONA Corporation and Subsidiary

Condensed Consolidated Statements of Stockholders' Deficit

(In thousands, except share and per share data)

	Stock Series A	
	Shares	*Amount*
Balance, December 31, 2012	**500,000**	**1,000**
Common stock issued for consulting services	-	-
Common stock issued for employee stock purchase plan	-	-
Common stock issued in conjunction with debt extinguishments	-	-
Beneficial conversion feature on convertible debt issuance	-	-
Stock-based compensation	-	-
Net loss, year ended December 31, 2013	-	-
Balance, December 31, 2013	**500,000**	**$1,000**
Common stock issued for consulting services	-	-
Common stock issued for employee stock purchase plan	-	-
Common stock issued in conjunction with debt extinguishments	-	-
Beneficial conversion feature on convertible debt issuance	-	-
Stock-based compensation	-	-
Net loss, nine months ended September 30, 2014	-	-
Balance, September 30, 2014	**500,000**	**$1,000**

See accompanying notes to condensed consolidated financial statements

SEDONA Corporation and Subsidiary
Condensed Consolidated Statements of Stockholders' Deficit
(In thousands, except share and per share data)

	Common Stock		Additional Paid-In Capital	Accumulated
	Shares	*Amount*		**Deficit**
Balance, December 31, 2012	**129,114,064**	**129**	**$ 73,453**	**($88,286)**
Proceeds from the sale of common stock				
Common stock issued for employee stock purchase plan				
Common stock issued in conjunction with debt extinguishments				
Beneficial conversion feature on convertible debt issuance				
Stock-based compensation				
Forgiveness of litigation debt obligation				
Net loss, year ended December 31, 2013				-725
Balance, December 31, 2013	**129,114,064**	**$129**	**$ 73,453**	**($89,011)**
Common stock issued for employee stock purchase plan				
Common stock issued in conjunction with debt extinguishments				
Beneficial conversion feature on convertible debt issuance				
Stock-based compensation				
Forgiveness of litigation debt obligation				
Net loss, nine months ended September 30, 2014				-684
Balance, September 30, 2014	**129,114,064**	**$129**	**$ 73,453**	**($89,695)**

See accompanying notes to condensed consolidated financial statements.

SEDONA Corporation and Subsidiary
Condensed Consolidated Statements of Cash Flows
(In thousands, except share and per share data)
Nine months ended September 30, 2014

Operating activities:	
Net loss	-684
Adjustments to reconcile net loss to net cash used in operating activities:	0
Depreciation	1
Charge for employer 401(K) stock contribution	
Common stock issued for legal, consulting services and placement agent	
Stock-based compensation	
Accretion of debt discount	
Loss on extinguishment of debt	
Inducement loss on debt conversion	
Loss on the sale of assets	
Changes in operating assets and liabilities:	
Accounts receivable	-326
Prepaid expenses and other current assets	32
Accounts payable and accrued expenses	599
Deferred revenue	322
Net cash used in operating activities	**-56**
Investing activities:	
Purchase of fixed assets	
Net cash used in investing activities	
Financing activities:	
Proceeds from line of credit	
Proceeds from other non-current liabilities	
Proceeds from sale of common stock	
Proceeds from the exercise of stock options	
Proceeds from the issuance of short-term note	
Net cash provided by financing activities	
Net increase/(decrease) in cash and cash equivalents	-56
Cash and cash equivalents, beginning of year	133
Cash and cash equivalents, end of period	**77**

See accompanying notes to consolidated financial statements.

Supplemental Disclosures of Cash Flow Information
Cash paid during the period for interest

Supplemental Disclosures of Non-Cash Financing Activities
Conversion of debt into common stock
Conversion of accrued interest into common stock
Beneficial conversion on debt refinancing/issuance
Forgiveness of OSI litigation liability

Notes to Consolidated Financial Statements

1. The Company ceased to declare preferred stock dividends as of January 1, 2001 on the issued and outstanding series of the Class A Convertible Preferred Stock. Cumulative but undeclared dividends on the Series A Preferred Stock as of September 30, 2014, equaled $1,650,000 or $3.30 per share.

2. The Company entered into an agreement on November 11, 2014 to repurchase the issued and outstanding series of the Class A Convertible Preferred Stock, for a total of $105,000 payable over 51 months. The agreement settled the action brought by ANDREW TROLIO against SEDONA CORPORATION and DAVID VEY, CEO in the Delaware County (PA) Court of Common Pleas at No.2013-003670.

3. The Company re-purchased 772,078 shares of SEDONA common stock held in the SEDONA Corporation 401(k) Plan on November 10, 2014, removing them from the unitized stock fund and closing the unitized stock fund, resulting in a significant reduction in annual plan administrative expenses.

4. The Company entered into an agreement on September 24, 2014 to pay $165,000 to AMRO INTERNATIONAL, S.A., et al. to fully satisfy a $1,000,000 judgment award. The agreement settled the action brought by AMRO INTERNATIONAL, S.A., et al. against SEDONA CORPORATION in the Montgomery County (PA) Court of Common Pleas at No.2014-09619.

5. The Company entered into an agreement on September 24, 2014 to borrow $165,000 with a short term loan from a group of five employees. The funds were used to settle and pay the judgment in favor of AMRO INTERNATIONAL, S.A., et al.