SEDONA Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	As of December 31, 2014	As of December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	42	133
Accounts receivable	566	506
Prepaid expenses and other current assets	69	44
Total current assets	$677	$684
Accounts receivable, non-current	677	565
Property and equipment, net	3	4
Other non-current assets	1	1
Total non-current assets	681	570
Total assets	**$1,358**	**$1,254**
Liabilities and stockholders' deficit		
Current liabilities:		
Current maturities of long-term debt, net of discount	8,765	8,740
Accounts payable	197	213
Accrued litigation expenses	599	599
Legal judgments	300	372
Accrued expenses and other current liabilities	5,138	4,327
Deferred and unearned revenue	915	865
Total current liabilities	$15,914	$15,116
Long-term debt, less current maturities, net of discount		
Deferred and unearned revenue	677	565
Total long-term liabilities	677	565
Total liabilities	**$16,591**	**$15,681**
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
Treasury stock at cost	-8	
Additional paid-in-capital	73,348	73,453
Accumulated deficit	-89,700	-89,011
Total stockholders' deficit	-15,233	-14,427
Total liabilities and stockholders' deficit	$1,358	$1,254

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)

	Year ended December 31,	
	2014	**2013**
Revenues:		
Product licenses	777	678
Services	861	874
Total revenues	**1,638**	**1,552**
Cost of revenues:		
Services	281	257
Total cost of revenues	281	257
Gross profit	1,357	1,296
Expenses:		
General and administrative	398	513
Litigation and Judgment expenses	175	89
Sales, marketing and customer services	450	408
Research and development	293	309
Total operating expenses	1,316	1,319
Gain(Loss) from operations	**41**	**(24)**
Other expenses:		
Interest expense including debt discount accretion	(731)	(701)
Total other expenses	(731)	(701)
Net loss	**(690)**	**(725)**
Deemed dividends applicable to preferred stockholders	(120)	(120)
Loss applicable to Common Stockholders	**(810)**	**(845)**
Basic and diluted net loss per share applicable to common shares	**(0.01)**	**(0.01)**
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, year ended December 31, 2014	-	-
Balance, December 31, 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	Treasury Stock	Accumulated Deficit
	Shares	*Amount*			
Balance, December 31, 2012	**129,114,064**	**$129**	**$73,453**	**$0**	**($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**	**$0**	**($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					
Repurchase Common Stock				-8	
Repurchase Class A Convertible Preferred Stock			-105		
Net loss, year ended December 31, 2014					-690
Balance, December 31, 2014	**129,114,064**	**$129**	**$73,348**	**($8)**	**($89,700)**

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)
Year ended December 31, 2014

Operating activities:	
Net loss	-690
Adjustments to reconcile net loss to net cash used in operating activities:	-1
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	-172
Prepaid expenses and other current assets	-24
Accounts payable and accrued expenses	745
Deferred revenue	162
Net cash used in operating activities	**21**
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	165
Repayment of notes payable to related parties	-172
Repurchase Class A Convertible Preferred Stock	-105
Net cash provided by financing activities	-112
Net increase/(decrease) in cash and cash equivalents	-91
Cash and cash equivalents, beginning of year	133
Cash and cash equivalents, end of period	**42**

See accompanying notes to condensed consolidated financial statements.

Supplemental Disclosures of Cash Flow Information	
Cash paid during the period for interest	*1*
Supplemental Disclosures of Non-Cash Financing Activities	
Conversion of debt into common stock	*0*
Conversion of accrued interest into common stock	*0*
Beneficial conversion on debt refinancing/issuance	*0*

Notes to Condensed 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 December 31, 2014, equaled $1,680,000 or $3.36 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.

FY2014 RESULTS OF OPERATIONS

TOTAL REVENUES

Total revenues from operations for the year ended December 31, 2014 and 2013 were $1,638,000 and $1,552,000, respectively, an increase in revenue of 6% in 2014. Additional staffing and ongoing investment SEDONA's Version 7.0 product release enabled the improved 2014 results. Revenues are broken out in the following categories:

- *In-House License Revenue*: For the year ended December 31, 2014 revenues from product licenses were $297,000, compared to $223,000 in 2013, an increase of 33%. The Company has confirmed that the demand for in-house CRM software applications will continue to increase in 2015 as financial institutions seek solutions to help them effectively promote the specific products that will increase their profitability and retain their loyal customers.
- *SaaS License Fee Revenue:* SaaS based license revenues (Software as a Service) for the year ended December 31, 2014 were $480,000, compared to $455,000 in 2013, an increase of 5%. The Company expects that the SaaS based licensing model will continue to show strong results through 2015 as this model provides financial institutions with an immediately available, fully integrated system, including all of the software, hardware and services required for the deployment of a comprehensive, web-based enterprise business application, for an affordable, fixed monthly subscription fee. SaaS based pricing is especially attractive to financial institutions who lack the resources and IT infrastructure to deploy an in-house enterprise business application. In addition, it does not involve the significant up-front charges of a perpetual license and does not come out of an organization's capital expenditures budget. SaaS based licensing enables predictable recurring revenue stream because the subscription fee is paid monthly over a five-year period.
- *Deferred Revenue:* As of December 31, 2014, the Company has recorded a total of $1,591,000 in current and non-current accounts receivable and associated deferred revenue for SaaS based subscription fees. This represents a 10% increase from the approximately $1,450,000 reported as of December 31, 2013.
- *Service Fee Revenue:* Service fee revenues for the year ended December 31, 2014 were $295,000, compared to $238,000 in 2013, a 24% increase. During 2014, the Company experienced a continued interest from its clients for customized services and profitability analysis. We anticipate that this trend will continue in 2015, as we continue to expand our service offerings specifically tailored to help increase our financial institution clients attain improved profitability and customer satisfaction.
- *Cost of Revenues:* Cost of revenues includes the cost associated with providing Professional Services, such as data mapping, programming services, training, customer support, installation and consulting services. These services described above are billed on a time and materials basis. Cost of revenue was

$281,000 for the year ended December 31, 2014. In comparison, cost of sales in 2013 was $257,000.

- *Gross Profit:* For the year ended December 31, 2014, the Company reported a gross profit of $1,357,000 for an increase of 5% compared to the previous year 2013 when the Company reported a gross profit of $1,296,000.

OPERATING EXPENSES

Operating expenses are broken out in the following categories:

- *Sales, marketing and product support:* Sales, marketing and product support expenses generally consist of salaries, employee benefits and related expenses for business development activities. We anticipate that our expenditures in this area will grow in future years as we increase our market penetration with new direct sales opportunities and expand the opportunities within our indirect channel through the addition of new partners and resellers. Sales, marketing and product support cost increased by $42,000 or 10% to $450,000 in 2014, compared to $408,000 in 2013.
- *Research and Development:* Research and development expenses generally consist of salaries, employee benefits and related overhead expenses for product development of our CRM/MRM application solutions. Research and development costs relate to future products as well as the redesign and maintenance of current products. We charge all research and development expenses to operations as incurred. We anticipate that our expenditures in this area will increase in the future as we continue to upgrade and improve our technology to compete effectively with other providers of CRM/MRM applications and satisfy the demands of our partners and customers. Research and development expenses were $293,000 and $309,000 for the years ended December 31, 2014 and 2013, respectively.
- *General and Administrative:* General and administrative expenses generally consist of salaries, employee benefits and related overhead expenses for executive, financing, accounting and human resource personnel. In addition, major components of these expenses include other corporate expenses such legal, accounting, audit fees, professional services, insurance and facilities expenses. General and administrative expenses were $398,000 and $513,000 for the years ended December 31, 2014 and 2013, respectively.
- *Litigation:* Litigation expenses generally consist of expenses resulting from court ordered judgment awards, settlements, and related legal efforts. Litigation expenses were $175,000 and $89,000 for the years ended December 31, 2014 and 2013, respectively.

LEGAL PROCEEDINGS

- *On May 5, 2003*, SEDONA filed a civil action lawsuit against numerous defendants in the United States Southern District of New York. The Company sought damages from the defendants named, and other defendants the complaint for allegedly participating in the manipulation of its common stock, fraud, misrepresentation, fiduciary responsibility, and/or failure to adhere to SEC trading rules and regulations, tortuous interference, actions set forth in the complaint.
- *On March 27, 2009*, the Honorable Judge Laura Swain, a federal judge in the United States District Court New York, issued an opinion dismissing almost all of the defendants from the civil action lawsuit filed by SEDONA. SEDONA was granted the right and has filed a third amended petition against the remaining defendants these claims.
- *On May 1, 2009*, Amro International, S.A., Rhino Advisors, Inc., Roseworth Group., LTD., defendants in the May 5, 2003 action, filed suit against SEDONA and several of its former directors in Southern District of New York alleging breach of a settlement agreement seeking unspecified damages and expenses.
- *On May 30, 2012*, a settlement conference held before the Honorable Magistrate Judge Theodore Katz resulted in successfully resolving claims made and entered into by and among the following Settling Parties: (AMRO International, S.A., Roseworth Group, Ltd., Cambois Finance, Inc., and Rhino Advisors, Inc., et al., SEDONA Corporation and Ladenburg Thalmann & Co., Inc., et al., Case No. 03-CV-3120). Subject to filing final documentation, the parties mutually agreed on confidential terms of settlement and joint stipulations dismissing the Litigation, including all claims, counterclaims, cross claims, and third-party claims, which were or could have been asserted.
- *On September 24, 2014*, SEDONA entered into an agreement 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.
- *On November 11, 2014*, SEDONA entered into an agreement 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.