

SEDONA Corporation and Subsidiary
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	2012 Year End	4Q2012	3Q2012	2Q2012	1Q2012
Assets					
Current assets:					
Cash and cash equivalents	271	271	45	4	38
Accounts receivable	616	616	835	524	422
Prepaid expenses and other current assets	30	30	29	35	54
Total current assets	\$916	\$916	\$909	\$563	\$514
Accounts receivable, non-current	525	525	501	556	548
Property and equipment, net	5	5	6	3	3
Other non-current assets	1	1	1	1	1
Total non-current assets	532	532	508	560	552
Total assets	\$1,448	\$1,448	\$1,417	\$1,123	\$1,066
Liabilities and stockholders' deficit					
Current liabilities:					
Current maturities of long-term debt, net of discount	8,740	8,740	8,740	8,740	8,740
Accounts payable	557	557	553	547	490
Accrued litigation expenses	599	599	678	678	678
Accrued expenses and other current liabilities	3,632	3,632	3,445	3,279	3,140
Deferred and unearned revenue	1,096	1,096	1,115	796	809
Total current liabilities	\$14,625	\$14,625	\$14,531	\$14,040	\$13,857
Long-term debt, less current maturities, net of discount					
Deferred and unearned revenue	525	525	501	556	548
Total long-term liabilities	525	525	501	556	548
Total liabilities	\$15,150	\$15,150	\$15,032	\$14,596	\$14,405
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	1,000	1,000	1,000
Common stock, par value \$0.001					
Authorized shares -175,000,000, Issued and outstanding shares - 129,114,064 and 127,364,064 in 2010 and 2009, respectively	129	129	129	129	129
Additional paid-in-capital	73,453	73,453	73,453	73,453	73,453
Accumulated deficit	(88,284)	(88,284)	(88,197)	(88,047)	(87,921)
Total stockholders' deficit	(13,702)	(13,702)	(13,615)	(13,473)	(13,339)
Total liabilities and stockholders' deficit	1,448	1,448	1,417	1,123	1,066

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)

	2012 Year End	4Q2012	3Q2012	2Q2012	1Q2012
Revenues:					
Product licenses	576	143	167	172	95
Services	886	282	194	228	182
<i>Total revenues</i>	1,462	425	360	400	278
Cost of revenues:					
Services	240	55	64	68	54
<i>Total cost of revenues</i>	240	55	64	68	54
<i>Gross profit</i>	1,222	369	296	332	224
Expenses:					
General and administrative	415	117	88	117	94
Litigation expenses	0	0	0	0	0
Sales, marketing and customer services	387	105	97	95	96
Research and development	292	76	79	75	72
<i>Total operating expenses</i>	1,095	299	264	287	262
<i>Gain(Loss) from operations</i>	127	71	32	45	(38)
Other expenses:					
Interest expense including debt discount accretion	(703)	(176)	(178)	(175)	(175)
<i>Total other expenses</i>	(703)	(176)	(178)	(175)	(175)
Net loss	(576)	(106)	(146)	(130)	(213)
Deemed dividends applicable to preferred stockholders	(120)	(30)	(30)	(30)	(30)
Loss applicable to Common Stockholders	(696)	(136)	(176)	(160)	(243)
Basic and diluted net loss per share applicable to common shares	(0)	(0)	(0)	(0)	(0)
Basic and diluted weighted average common shares outstanding	129,114,064	129,114,064	129,114,064	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	
	<i>Shares</i>	<i>Amount</i>
Balance, January 1, 2011	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, 2011	-	-
Balance, January 1, 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, 2012	-	-
Balance, December 31, 2012	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 Deficit
	Shares	Amount		
Balance, December 31, 2010	129,114,064	129	73,453	(87,043)
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, 2011				(667)
Balance, December 31, 2011	129,114,064	129	73,453	(87,710)
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, 2012				(576)
Balance, December 31, 2012	129,114,064	129	73,453	(88,286)

*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)

2012

Operating activities:

Net loss	(576)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	(2)
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	(209)
Prepaid expenses and other current assets	34
Accounts payable and accrued expenses	632
Deferred revenue	263
Net cash used in operating activities	<u>143</u>

Investing activities:

Purchase of fixed assets	
Net cash used in investing activities	<u>0</u>

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	<u>0</u>
Net increase/(decrease) in cash and cash equivalents	144
Cash and cash equivalents, beginning of year	127
Cash and cash equivalents, end of year	<u><u>271</u></u>

See accompanying notes to consolidated financial statements.

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for interest	2
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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	0
refinancing/issuance	0
Forgiveness of OSI litigation liability	0

FY2012 RESULTS OF OPERATIONS

TOTAL REVENUES

Total revenues from operations for the year ended December 31, 2012 and 2011 were \$1,462,000 and \$1,315,000, respectively, an increase in revenue of 11% in 2012. The previous year's investment in SEDONA's Version 7.0 product release enabled the improved 2012 results. Revenues are broken out in the following categories:

- *In-House License Revenue:* For the year ended December 31, 2012 revenues from product licenses were \$ 182,000, compared to \$ 112,000 in 2011, an increase of 63%. The Company has confirmed that the demand for in-house CRM software applications will continue to increase in 2013 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, 2012 were \$ 394,000, compared to \$ 379,000 in 2011, an increase of 4%. The Company expects that the SaaS based licensing model will continue to show strong results through 2013 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, 2012, the Company has recorded a total of \$ 1,665,000 in current and non-current accounts receivable and associated deferred revenue for SaaS based subscription fees. This represents a 23% increase over the approximately \$ 1,358,000 reported as of December 31, 2011.
- *Service Fee Revenue:* Service fee revenues showed significant improvement over the prior year, due in part to the prior year's release of Version 7.0, a new

version of SEDONA CRM/MRM. Service fee revenues for the year ended December 31, 2012 were \$ 247,000, a 42% increase over 2011. During 2012, the Company noted an increased interest from its clients for customized services and profitability analysis. We anticipate that this trend will continue in 2013, 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 \$240,000 for the year ended December 31, 2012. In comparison, cost of sales in 2011 was \$208,000.
- *Gross Profit:* For the year ended December 31, 2012, the Company reported a gross profit of \$1,222,000 compared to the year ended December 31, 2011 when the Company reported a gross profit of \$1,107,000.

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 \$44,000 or 13% to \$387,000 in 2012, compared to \$343,000 in 2011.
- *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 \$292,000 and \$304,000 for the years ended December 31, 2012 and 2011, 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 \$415,000 and \$421,000 for the years ended December 31, 2012 and 2011, respectively. The decrease in expenses of \$6,000 was generally attributable to the Company's continuing efforts to reduce its consultant services fees for legal and accounting.

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.