# SEDONA Corporation and Subsidiary Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

Assets   2010   2009	<del>-</del>	Dago	mhor 21
Current assets:   Cash and cash equivalents   148   \$37     Accounts receivable   545   345     Prepaid expenses and other current assets   547   5456     Accounts receivable, non-current   599   638     Property and equipment, net   6   12     Other non-current assets   3   3     Total non-current assets   51,385   51,109      Liabilities and stockholders' deficit     Current maturities of long-term debt, net of discount   58,740   58,332     Accounts payable   518   622     Accrued litigation expenses   706   699     Accrued and unearned revenue   972   914     Total current liabilities   513,247   512,189     Long-term debt, less current maturities, net of discount   599   638     Total liabilities   599   638     Total long-term liabilities   513,846   512,827      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   Authorized shares - 1,75,000,000, Issued and outstanding shares - 127,364,064 and 101,004,818 in 2009 and 2008, respectively   Additional paid-in-capital   73,453   73,156   Accumulated deficit   48,043   86,001   Total stockholders' deficit   -11,718	Accete		•
Cash and cash equivalents         148         \$37           Accounts receivable         545         345           Prepaid expenses and other current assets         84         74           Total current assets         \$777         \$456           Accounts receivable, non-current         599         638           Property and equipment, net         6         12           Other non-current assets         3         3           Total non-current assets         608         653           Total assets         \$1,385         \$1,109           Liabilities and stockholders' deficit           Current maturities of long-term debt, net of discount           Accounts payable         \$18         622           Accounts payable         \$18         622           Accrued expenses and other current liabilities         2,311         1,622           Deferred and unearned revenue         972         914           Total current liabilities         \$13,247         \$12,189           Long-term debt, less current maturities, net of discount         \$99         638           Total long-term liabilities         \$99         638           Total long-term liabilities         \$13,846         \$12,827		2010	2009
Accounts receivable   545   345     Prepaid expenses and other current assets   84   74     Total current assets   5777   \$456     Accounts receivable, non-current   599   638     Accounts receivable, non-current   6   12     Other non-current assets   3   3     Total non-current assets   608   653     Total assets   51,385   51,109      Liabilities and stockholders' deficit     Current liabilities:     Current maturities of long-term debt, net of discount     Accounts payable   518   622     Accrued expenses and other current liabilities   2,311   1,622     Deferred and unearned revenue   972   914     Total current liabilities   513,247   \$12,189     Long-term debt, less current maturities, net of discount     Deferred and unearned revenue   599   638     Total long-term liabilities   513,846   \$12,827     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     Common stock, par value \$0.001     Authorized shares - 175,000,000, Issued and outstanding shares - 127,364,064 and 101,004,818 in 2009 and 2008, respectively   Additional paid-in-capital   73,453   73,156     Accumulated deficit   -87,043   -86,001     Total stockholders' deficit   -11,718		1/10	\$27
Prepaid expenses and other current assets   \$777	•		
State			
Accounts receivable, non-current 599 638 Property and equipment, net 6 12 Other non-current assets 3 3 3 Total non-current assets 608 653 Total assets 51,385 51,109  Liabilities and stockholders' deficit Current liabilities:  Current maturities of long-term debt, net of discount 88,740 88,332 Accounts payable 518 622 Accrued litigation expenses 706 699 Accrued expenses and other current liabilities 2,311 1,622 Deferred and unearned revenue 972 914 Total current liabilities \$13,247 \$12,189 Long-term debt, less current maturities, net of discount Deferred and unearned revenue 599 638 Total long-term liabilities 513,846 \$12,827  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 Authorized shares - 175,000,000, Issued and outstanding shares - 175,000,000, Issued and 0.11,000,000, Issued 0.11,000,000, Is	• •		
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Current maturities of long-term debt, net of discount         \$8,740         \$8,332           Accounts payable         518         622           Accrued litigation expenses         706         699           Accrued expenses and other current liabilities         2,311         1,622           Deferred and unearned revenue         972         914           Total current liabilities         \$13,247         \$12,189           Long-term debt, less current maturities, net of discount         -         -           Deferred and unearned revenue         599         638           Total long-term liabilities         599         638           Total long-term liabilities         \$13,846         \$12,827           Stockholders' (deficit):         Class A convertible preferred stock (liquidation preference \$1,000)         1,000           Authorized shares - 1,000,000         5eries A, par value \$2.00, Issued and outstanding shares - 175,000,000, Issued and outstanding shares - 175,000,000, Issued and outstanding shares - 127,364,064 and 101,004,818 in 2009 and 2008, respectively         129         127           Additional paid-in-capital         73,453         73,156           Accumulated deficit         -87,043         -86,001           Total stockholders' deficit         -11,718	Liabilities and stockholders' deficit		
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Accrued litigation expenses 706 699  Accrued expenses and other current liabilities 2,311 1,622  Deferred and unearned revenue 972 914  Total current liabilities \$13,247 \$12,189  Long-term debt, less current maturities, net of discount	Current maturities of long-term debt, net of discount	\$8,740	\$8,332
Accrued expenses and other current liabilities 2,311 1,622  Deferred and unearned revenue 972 914  Total current liabilities \$13,247 \$12,189  Long-term debt, less current maturities, net of discount	Accounts payable	518	622
Deferred and unearned revenue   972   914	Accrued litigation expenses	706	699
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Cong-term debt, less current maturities, net of discount	Deferred and unearned revenue	972	914
Deferred and unearned revenue   599   638     Total long-term liabilities   599   638     Total liabilities   \$13,846   \$12,827     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     Common stock, par value \$0.001     Authorized shares - 175,000,000, Issued and outstanding shares - 127,364,064 and 101,004,818 in 2009 and 2008, respectively   Additional paid-in-capital   73,453   73,156     Accumulated deficit   -87,043   -86,001     Total stockholders' deficit   -12,461   -11,718	Total current liabilities	\$13,247	\$12,189
Total long-term liabilities         599         638           Total liabilities         \$13,846         \$12,827           Stockholders' (deficit):         Class A convertible preferred stock (liquidation preference \$1,000)	~		-
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Series A, par value \$2.00, Issued and outstanding shares - 500,000       1,000       1,000         Common stock, par value \$0.001       4       1,000         Authorized shares - 175,000,000, Issued and outstanding shares -       127,364,064 and 101,004,818 in 2009 and 2008, respectively       129       127         Additional paid-in-capital       73,453       73,156         Accumulated deficit       -87,043       -86,001         Total stockholders' deficit       -12,461       -11,718	Class A convertible preferred stock (liquidation		
shares - 500,000 1,000  Common stock, par value \$0.001  Authorized shares - 175,000,000, Issued and outstanding shares -  127,364,064 and 101,004,818 in 2009 and 2008, respectively  Additional paid-in-capital 73,453 73,156  Accumulated deficit -87,043 -86,001  Total stockholders' deficit -11,718	Authorized shares – 1,000,000		
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outstanding shares –  127,364,064 and 101,004,818 in 2009 and 2008, respectively  Additional paid-in-capital 73,453 73,156  Accumulated deficit -87,043 -86,001  Total stockholders' deficit -12,461 -11,718	Common stock, par value \$0.001		
respectively         129         127           Additional paid-in-capital         73,453         73,156           Accumulated deficit         -87,043         -86,001           Total stockholders' deficit         -12,461         -11,718			
Additional paid-in-capital       73,453       73,156         Accumulated deficit       -87,043       -86,001         Total stockholders' deficit       -12,461       -11,718	127,364,064 and 101,004,818 in 2009 and 2008,	129	127
Accumulated deficit         -87,043         -86,001           Total stockholders' deficit         -12,461         -11,718		73,453	73,156
Total stockholders' deficit -12,461 -11,718	• •		
	Total stockholders' deficit	•	·
	Total liabilities and stockholders' deficit	1,385	\$1,109

 $See\ accompanying\ notes\ to\ condensed\ consolidated\ financial\ statements.$ 

## SEDONA Corporation and Subsidiary Condensed Consolidated Statements of Operations

(In thousands, except share and per share data)

	For years ended December 31,	
	2010	2009
Revenues:	2010	2003
Product licenses	504	\$401
Services	840	849
Total revenues	1,344	1,250
Cost of revenues:		
Services	271	374
Total cost of revenues	271	374
Gross profit	1,073	876
Expenses:		
General and administrative	529	1,112
Litigation expenses	7	131
Sales, marketing and customer services	312	835
Research and development	306	338
Total operating expenses	1,154	2,416
Loss from operations	-81	-1,540
Other expenses:		
Interest expense including debt discount accretion	-961	-4,100
Total other expenses	-961	-4,100
Net loss	-1,042	-5,640
Deemed dividends applicable to preferred stockholders	-120	-120
Loss applicable to Common Stockholders	(\$1,162)	(\$5,760)
Basic and diluted net loss per share applicable to common shares	(\$0.01)	(\$0.05)
Basic and diluted weighted average common shares outstanding	129,114,064	127,364,064

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)

Balance, December 31, 2008
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, 2009
Balance, December 31, 2009
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

See accompanying notes to condensed consolidated
financial statements

Net loss, year ended December 31, 2010

Stock-based compensation

Balance, December 31, 2010

Stock Series A				
Shares	Amount			
500,000	1,000			
-	-			
-	-			
-	-			
-	_			
-	-			
500,000	\$1,000			
300,000	Ψ1,000			
-	-			
-	-			
-	-			
_	_			
-	_			
-	-			
500,000	\$1,000			

### SEDONA Corporation and Subsidiary Condensed Consolidated Statements of Stockholders' Deficit

(In thousands, except share and per share data)

			Additional	
	Common Stock		Paid-In	Accumulated
	Shares	Amount	Capital	Deficit
Balance, December 31, 2008	101,004,818	101	71,274	-80,361
Common stock issued for consulting services	1,079,419	1	78	
Common stock issued for employee stock purchase plan	25,046	-	3	
Common stock issued in conjunction with debt extinguishments	25,254,781	25	-25	
Beneficial conversion feature on convertible debt issuance	-	-	975	
Stock-based compensation	-	-	5	
Forgiveness of litigation debt obligation	-	-	846	
Net loss, year ended December 31, 2009	-	-	-	-5,640
	-	-	-	-
Balance, December 31, 2009	127,364,064	\$127	\$73,156	(\$86,001)
Proceeds from the sale of common stock	1,750,000	2	68	
Common stock issued for employee stock purchase	1,7 30,000	2	00	
plan			-	
Common stock issued in conjunction with debt extinguishments			-	
Beneficial conversion feature on convertible debt issuance			225	
Stock-based compensation			4	
Forgiveness of litigation debt obligation			-	
Net loss, year ended December 31, 2010				-1,042
Balance, December 31, 2010	129,114,064	\$129	\$73,453	(\$87,043)

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,	
	2010	2009
Operating activities:		
Net loss	(\$1,042)	(\$5,640)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	6	6
Charge for employer 401(K) stock contribution	-	-
Common stock issued for legal, consulting services and placement agent	-	47
Stock-based compensation	4	5
Accretion of debt discount	258	3,402
Loss on extinguishment of debt	-	-
Inducement loss on debt conversion	-	-
Loss on the sale of assets	-	-
Changes in operating assets and liabilities:		
Accounts receivable	-161	-99
Prepaid expenses and other current assets	-11	-12
Accounts payable and accrued expenses	593	475
Deferred revenue	19	196
Net cash used in operating activities	(\$334)	(\$1,620)
Investing activities:		
Purchase of fixed assets	0	-5
Net cash used in investing activities	0	-5
Financing activities:		
Proceeds from line of credit	375	-
Proceeds from other non-current liabilities	0	-
Proceeds from sale of common stock	70	3
Proceeds from the exercise of stock options	-	-
Proceeds from the issuance of short-term note	-	1,625
Net cash provided by financing activities	445	1,628
Net increase/(decrease) in cash and cash equivalents	111	3
Cash and cash equivalents, beginning of year	37	34
Cash and cash equivalents, end of year	148	\$37

See accompanying notes to consolidated financial statements.

Supplemental Disclosures of Cash Flow Information Cash paid during the year for interest	\$	1 \$	1
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	\$	225 \$	975
Forgiveness of OSI litigation liability	\$ -	\$	846