

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

Assets	December 31,	
	2010	2009
Current assets:		
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
 <b>Liabilities and stockholders' deficit</b>		
Current liabilities:		
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 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	1,000	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	129	127
Additional paid-in-capital	73,453	73,156
Accumulated deficit	-87,043	-86,001
Total stockholders' deficit	-12,461	-11,718
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
<b>Revenues:</b>		
Product licenses	504	\$401
Services	840	849
<i>Total revenues</i>	1,344	1,250
<b>Cost of revenues:</b>		
Services	271	374
<i>Total cost of revenues</i>	271	374
<i>Gross profit</i>	1,073	876
<b>Expenses:</b>		
General and administrative	529	1,112
Litigation expenses	7	131
Sales, marketing and customer services	312	835
Research and development	306	338
<i>Total operating expenses</i>	1,154	2,416
<i>Loss from operations</i>	-81	-1,540
<b>Other expenses:</b>		
Interest expense including debt discount accretion	-961	-4,100
<i>Total other expenses</i>	-961	-4,100
Net loss	-1,042	-5,640
Deemed dividends applicable to preferred stockholders	-120	-120
Loss applicable to Common Stockholders	<b>(\$1,162)</b>	<b>(\$5,760)</b>
Basic and diluted net loss per share applicable to common shares	<b>(\$0.01)</b>	<b>(\$0.05)</b>
Basic and diluted weighted average common shares outstanding	<b>129,114,064</b>	<b>127,364,064</b>

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, December 31, 2008	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, 2009	-	-
Balance, December 31, 2009	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, 2010	-	-
Balance, December 31, 2010	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		
<b>Balance, December 31, 2008</b>	<b>101,004,818</b>	<b>101</b>	<b>71,274</b>	<b>-80,361</b>
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
	-	-	-	-
<b>Balance, December 31, 2009</b>	<b>127,364,064</b>	<b>\$127</b>	<b>\$73,156</b>	<b>(\$86,001)</b>
Proceeds from the sale of common stock	1,750,000	2	68	
Common stock issued for employee stock purchase 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
<b>Balance, December 31, 2010</b>	<b>129,114,064</b>	<b>\$129</b>	<b>\$73,453</b>	<b>(\$87,043)</b>

*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
<b>Operating activities:</b>		
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	<u>(\$334)</u>	<u>(\$1,620)</u>
<b>Investing activities:</b>		
Purchase of fixed assets	0	-5
Net cash used in investing activities	<u>0</u>	<u>-5</u>
<b>Financing activities:</b>		
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	<u>445</u>	<u>1,628</u>
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	<u>148</u>	<u>\$37</u>

See accompanying notes to consolidated financial statements.

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for interest	\$	1	\$	1
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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