9.18.06

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SEDONA CORPORATION,
a Pennsylvania Corporation,

Plaintiff,

- against -

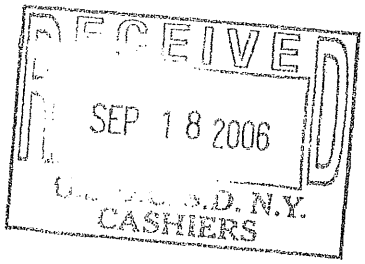
LADENBURG THALMANN & CO., INC.; PERSHING, LLC; WESTMINSTER SECURITIES CORPORATION; WM. V. FRANKEL & CO., INC.; RHINO ADVISORS, INC.; MARKHAM HOLDINGS LIMITED; ASPEN INTERNATIONAL LTD.; THE CUTTYHUNK FUND LIMITED c/o OPTIMA FUND MANAGEMENT L.P.; THE GEORGE S. SARLO 1995 CHARITABLE REMAINDER TRUST; AMRO INTERNATIONAL, S.A.; ROSEWORTH GROUP LIMITED; CAMBOIS FINANCE INC.; ULTRAFINANZ AG; DR. DR. BATLINER & PARTNER; CREON MANAGEMENT, S.A.; THOMAS BADIAN; THOMAS TOHN; DAVID BORIS; MICHAEL VASINKEVICH; JOSEPH A. SMITH; DAVID SIMS; H.U. BACHOFEN; HANS GASSNER; DR. DR. HERBERT BATLINER; J. DAVID HASSAN; ANTHONY L.M. INDER RIEDEN; GEOFFREY M. LEWIS; and JOHN DOES 1 to 150,

Defendants.

---

03 CV 3120 (LTS)

SECOND AMENDED COMPLAINT AND JURY DEMAND



Plaintiff SEDONA Corporation, for its complaint against defendants Ladenburg Thalmann & Co., Inc.; Pershing, LLC; Westminster Securities Corporation; Wm. V. Frankel & Co., Inc.; Rhino Advisors, Inc.; Markham Holdings Limited; Aspen International Ltd.; Amro International, S.A.; Roseworth Group Limited; Cambois Finance Inc.; Thomas Badian; Thomas

Tohn; David Boris; Michael Vasinkevich; J. David Hassan; Anthony L.M. Inder Rieden; and John Does 1 to 150 alleges as follows:

I. PARTIES, JURISDICTION, AND VENUE

1. Plaintiff SEDONA Corporation ("SEDONA") is a Pennsylvania corporation, with its principal place of business in King of Prussia, Pennsylvania.

2. Defendant Ladenburg Thalmann & Co., Inc. ("Ladenburg") is a Delaware corporation with its principal place of business at 590 Madison Avenue, New York, New York 10022.

3. Defendant Pershing, LLC ("Pershing") is a Delaware corporation with its principal place of business at One Pershing Plaza, Jersey City, New Jersey 07399.

4. Defendant Westminster Securities Corporation ("Westminster") is a New York corporation with its principal place of business at 100 Wall Street, New York, NY 10005.

5. Defendant Wm. V. Frankel & Co., Inc. ("Frankel") is a New Jersey corporation with its principal place of business at 30 Montgomery St., Jersey City, NJ 07302.

6. Defendant Rhino Advisors, Inc. ("Rhino") is a New York corporation and may be served with process through its registered agent, National Registered Agents Inc., 875 Avenue of the Americas, Suite 501, New York, NY 10001.

7. Defendant Markham Holdings Limited ("Markham"), is a foreign business entity that does business in the United States, and may be served with process upon David Hassan, President, at its principal place of business at Suite 7B and 8B, 50 Town Range, Gibraltar.

8. Defendant Aspen International Ltd. ("Aspen") is a foreign business entity doing business in the United States and may be served with process at its principal place of business at Charlotte House, Charlotte Street, Nassau Bahamas.

9. Defendant Amro International, S.A. ("Amro") is a foreign business entity doing business in the United States and may be served with process at its principal place of business in care of Ultra Finanz, PO Box 4401 Ch-8022, Zurich, Switzerland.

10. Defendant Roseworth Group Limited ("Roseworth") is a foreign business entity doing business in the United States.

11. Defendant Cambois Finance Inc. ("Cambois") is a foreign business entity doing business in the United States.

12. Defendant Thomas Badian ("Badian") is an individual whose last known principal place of business was at Rhino Advisors, Inc., 130 W. 29th Street, 5th Floor, New York, New York 10022.

13. Defendant Thomas Tohn ("Tohn") is an individual whose last known principal place of business is at Ladenburg Thalmann & Co., at 590 Madison Avenue, New York, New York 10022.

14. Defendant David Boris ("Boris") is an individual who may be served at his principal place of business at Morgan Joseph & Co. Inc., 600 Fifth Avenue, New York, New York 10020.

15. Defendant Michael Vasinkevich ("Vasinkevich") is an individual who may be served at his principal place of business at Rodman & Renshaw, Inc. at 330 Madison Avenue, 27th Floor, New York, New York 10017.

16. Defendant Joseph A. Smith ("Smith") is an individual who may be served at his principal place of business at Ladenburg Thalmann & Co., Inc., at 590 Madison Avenue, New York, New York 10022.

17. Defendant J. David Hassan ("Hassan") is an individual who may be served at his principal place of business in care of Markham Holdings Limited, Suite 7B and 8B, 50 Town Range, Gibraltar.

18. Defendant Anthony L.M. Inder Rieden ("Rieden") is an individual who may be served at his principal place of business in care of Aspen International Ltd., Charlotte House, Charlotte Street, Nassau Bahamas.

19. John Does 1 to 150 are fictitious names alleged for the purpose of substituting names of defendants whose identity will be disclosed in discovery and should be made parties to this action.

20. This Court has subject matter jurisdiction pursuant to 28 U.S.C. § 1331, as this case involves federal questions, including violations of the Securities and Exchange Act of 1934, as amended ("Exchange Act"), and this Court has personal jurisdiction over the defendants.

21. Venue is lodged in this Court pursuant to 28 U.S.C. § 1391(b)(2), as a substantial part of the events or omissions giving rise to the claims herein occurred in this district.

II. GENERAL ALLEGATIONS

A) *An Overview of the Defendants' Scheme*

22. This case involves a scheme by multiple defendants to (a) defraud SEDONA into selling its Series G convertible preferred stock ("Series G Preferred") and other

securities to certain defendants herein, with warrants and other related rights (and in subsequent traunches of financing); (b) cause SEDONA to issue (for less than fair market value) convertible debentures to the defendants, and in association therewith, pay very onerous consulting, investment banking, securities registration and placement fees and other consideration, including warrants and stock of SEDONA; (c) manipulate downward the stock price of SEDONA with the culpable participation of U.S. broker-dealers and market makers in order to profit from the manipulation and price decline and to take advantage of increased conversion rights resulting from the manipulation; and (d) manipulate and destroy SEDONA's stock price and damage its balance sheet, making it impossible for the company to raise capital elsewhere to fund its business plan. This scheme has injured SEDONA and is in violation of federal and state law.

B) *An Overview of the Defendants' Previous Patterns Substantially Similar to Facts Herein*

23. Both (a) Ladenburg and related and numerous affiliates and (b) Aspen, Markham and Rhino and related and numerous affiliates are accomplished practitioners of: (i) "death spiral" funding mechanisms; and (ii) active practitioners of stock manipulation and stock fraud.

24. Repeatedly, entities created, represented, or advised, by Ladenburg and Rhino were encouraged to "invest" in micro-cap companies such as SEDONA, that were listed on the NASDAQ, AMEX and OTCBB, through "toxic convertibles" or issuance of convertible preferred stock and/or common stock with reset provisions warrants, and/or convertible debentures. These types of financial instruments are the vehicles that permit all the defendants to then profit from a conspiracy to

manipulate and ultimately cause the stock price of those companies to decline to mere pennies in most cases and potentially inhibit the ability of such companies to raise capital after the entities make their so-called "long-term," "for-the-benefit-of-the-company" "investments". The lower the price of the stock, the more stock could be acquired through the conversion, based on the conversion formula in the financial instruments, giving the defendants a motive to take action to cause the stock price to drop. Additionally, as share prices decline more shares will be received by defendants on conversion. The defendants profit from various manipulative techniques, including illegal short-selling and/or massive naked short selling, which have the effect of counterfeiting shares of the issuer, and generating substantial windfalls for the defendants if the company goes out of business and the defendants are not required to cover the short sales.

25. This type of activity has occurred hundreds of times as is evidenced by: (a) the article in *Forbes* dated June 12, 2002, authored by Brandon Copple, entitled "Sinking Fund," commencing on page 46; (b) the article in *Forbes* dated October 13, 2003, authored by Rob Wherry, entitled "Wall Street's Next Nightmare?," commencing on page 66; (c) the article in *Canadian Business* dated October 26, 2002, authored by Matthew McClearn, Volume 75, Issue 20, entitled "Predator or Prey?," commencing on page 66; (d) the article in *Time Magazine* dated November 6, 2005, authored by Daniel Kadlec, entitled "Watch Out, They Bite: How Hedge Funds Tied to Embattled Broker Refco Used 'Naked Short Selling' to Plunder Small Companies;" (e) the article in *Business Week* dated April 10, 2006, authored by Jane Sasseen, entitled "The Secret Lives of Short-Sellers;" (f) the

article in *Bloomberg* dated September, 2006, authored by Bob Drummond, entitled "Games Short Sellers Play," commencing on page 120; (g) recent opinions by (i) the Honorable Judge Sand rendered on October 10, 2002, in Case No. 02 Civ. 0767 titled *Nanopierce Technologies, Inc. vs. Southridge Capital Management, LLC, et al.,* in the United States District Court for the Southern District of New York, (ii) the Honorable Judge Robert Carter rendered on July 17, 2002, in Case No. 01 Civ 6600 titled *Internet Law Library, Inc., et al. vs. Southridge Capital Management, LLC, et al.*, also in the United States District Court for the Southern District of New York, and (iii) the Honorable Robert S. Webb rendered on April 28, 2006 and May 24, 2006, in Case No. Civ. No. 4-04-CV-697 titled *Pet Quarters, Inc. vs. Thomas Badian, et al.,* in the United States District Court for the Eastern District of Arkansas, along with at least seven (7) other substantially similar cases (now pending) filed in the Southern District of New York, and numerous others nationwide.

C) Indictments and Regulatory Actions Substantiating this Pattern of Securities Fraud

1) The February 2003 SEC Complaint Against Rhino and Badian

26. In February 2003 the Securities and Exchange Commission ("SEC") filed a complaint against Defendants Rhino and Badian (the "2003 SEC Complaint"). Rhino and Badian settled the claim in exchange for the payment of a fine in the amount of $1 Million. In addition, Rhino and Badian agreed to be permanently enjoined from engaging in any fraudulent or misleading activity while purchasing or selling securities and to comply with other terms as are set forth in their settlement agreement. The SEC Complaint alleged that:

> Rhino and Badian manipulated SEDONA's stock price to enhance a client's economic interests in a $3 million convertible debenture (the "Debenture") that SEDONA issued on November 22, 2000. SEDONA issued the Debenture to one of Rhino's clients. The Debenture, negotiated by Badian, prohibited Rhino's client from selling short SEDONA's stock while the Debenture "remained issued and outstanding". Despite this contractual provision, Rhino engaged in extensive short selling and pre-arranged trading on behalf of its client prior to exercising the conversion rights under the Debenture. This short selling increased the supply of the shares in the market and depressed SEDONA's stock price. As a result of the depressed stock price, Rhino's client received more shares from SEDONA when it exercised its conversion rights under the Debenture than it otherwise would have received. Following the conversions, Rhino engaged in wash sales and matched orders to cover the short positions and conceal the client's involvement in the scheme.

It is similar behavior that SEDONA complains of herein. SEDONA adopts the allegations of the 2003 SEC Complaint as if set forth in full herein.

2) The December 2003 U.S. Attorney's Complaint against Badian and Andreas Badian

27. On December 3, 2003, a criminal complaint was filed under seal entitled United States v. Badian, No. 03 Mag. 2355 (S.D.N.Y.), charging Badian and his brother Andreas Badian ("A. Badian") with conspiracy to commit securities fraud based on their involvement in the scheme to manipulate SEDONA's stock (the "Criminal Complaint"). The Criminal Complaint states that from November 2000 up to and including the summer 2001, Badian and A. Badian, together with others, unlawfully, knowingly and willfully combined, conspired, confederated, and agreed together to commit securities fraud by carrying out a scheme to manipulate the share price of SEDONA common stock through short sales.

28. As detailed in the Criminal Complaint, Badian, A. Badian and others defrauded SEDONA by selling large quantities of SEDONA common stock short through a

securities brokerage account. The Criminal Complaint states that short sales by an offshore entity were designed to drive down the price of SEDONA common stock so that the offshore entity could profit by covering its short positions with stock obtained at a price below that at which it had sold short.

29. Prior to March 1, 2001, shares of SEDONA stock traded at an average price of $1.43 per share.

30. In the Criminal Complaint, a United States Postal Inspector quotes excerpts from audio recordings of the wrongdoers engaged in illegal short selling of the stock of SEDONA. The description of the recordings is compelling evidence of the manipulation. The recorded statements demonstrate that:

- On or about March 20, 2001, defendant A. Badian, told a registered representative at the Broker Dealer ("Broker 1"), in substance and in part, to sell the common stock of SEDONA with "unbridled levels of aggression" on behalf of the Offshore Entity Brokerage Account.
- Upon receiving this direction from A. Badian, the Broker Dealer sold short approximately 74,500 shares of SEDONA common stock. On March 20, 2001, SEDONA's share price closed at $0.9688 per share.
- The next day, on or about March 21, 2001, A. Badian congratulated Broker 1 on a "good job," noting that the company's share price had "collapsed." A. Badian then directed Broker 1 to be "merciless" with SEDONA.
- The Broker Dealer then sold short approximately 78,600 shares of SEDONA on behalf of the Offshore Entity Brokerage Account. On March 21, 2001, SEDONA's share price fell to $0.875 per share.

31. These short sales were intended to, and did in fact decrease the price at which Amro could exercise the conversion feature of the Convertible Debentures, allowing Amro to reap huge profits from its short selling activity. SEDONA adopts the allegations of the Criminal Complaint as if set forth in full herein.

3) SEC and U.S. Attorney's Investigations into Refco Securities LLC

32. In a Form 424(b)(3) filed with the SEC on April 13, 2005, Refco Securities LLC ("Refco") disclosed that the Division of Enforcement of the SEC had commenced an informal investigation into short sales of SEDONA's stock in 2001 executed through Refco, and that the SEC had requested documents relating to all accounts at Refco that traded in the stock of SEDONA.

33. On or about May 16, 2005, Refco announced in a press release that it had received a Wells Notice from the SEC in connection with an SEC investigation into the manipulation of SEDONA's stock. Refco also acknowledged that it had received a subpoena from the U.S. Attorney's office in connection with their investigation into manipulation of SEDONA's stock.

34. In its SEC filing, Refco disclosed the fact that it had delivered documents to the SEC in connection with the SEC's investigations in 2001, 2002, and 2003. The documents included tapes and information regarding: (i) two former Refco brokers who handled the account of Defendant Amro, an entity that engaged in short sales of SEDONA through its account at Refco; (ii) Amro's financial advisor, Defendant Rhino, who settled SEC charges with respect to such short sales; (iii) Refco's relationship with Amro and its two principals; and (iv) other securities traded by Amro.

35. On July 15, 2005, Refco filed its quarterly statement, Form 10-Q, wherein it disclosed that it was engaged in active discussions with the SEC to resolve the matters raised in the SEDONA investigation.

36. On or about October 10, 2005, Refco disclosed to the market that its CEO and Chairman, Phillip R. Bennett, had engaged in related party transactions that were not disclosed to the public. The related party transaction caused Refco to file a false and misleading registration statement regarding the financial condition of Refco. The public disclosure of the related party transactions caused the stock price of Refco to plummet. This eventually resulted in an announcement by Refco that it would wind down its operations, liquidate or sell off various divisions of the company. On or about October 17, 2005, Refco filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code.

37. Refco has disclosed: (1) unlawful accounting transactions by its CEO and Chairman, and (2) the decision to wind down, liquidate or sell various divisions of Refco and to declare bankruptcy. The unlawful activity resulted in a federal criminal complaint against Phillip R. Bennett dated October 12, 2005.

38. In an SEC complaint dated June 1, 2006, the SEC brought charges against Bank Fuer Arbeit und Wirtschaft AG ("Bawag") -- Austria's fourth-largest financial institution for its involvement in the fraudulent related party transactions of Refco. Bawag was under investigation for loaning former Refco CEO Phillip Bennett several hundred million dollars prior to public disclosure of Refco's fraudulent conduct. On June 5, 2006 the SEC filed a settled civil injunction in which Bawag consented to the entry of a Final Judgment to resolve the charges

related to Bawag's role in the Refco scandal. Bawag agreed to pay the SEC and the U.S. Attorney's Office approximately $675 Million to resolve all related claims.

39. Bawag was a key player in private placements of new stock by public U.S. entities through four foreign hedge funds that it owned, Alpha Capital, Austinvest Anstalt Balzers, Austost Anstalt Schaan and Celeste Trust. Each of the hedge fudns were based in Lichtenstein, were customers of Refco, and Refco helped each sell shares they acquired in their financing transactions. Additionally, the Bawag affiliated hedge funds invested in many of the same deals as Defendant Amro. In one particular financing with a U.S. public company, Bravo Foods International, it was disclosed that the Ausinvest Anstalt Balzers hedge fund and Defendant Amro shared a common investment representative. Upon information and belief, that investment representative was Defendant Rhino.

40. Recently, on September 14, 2006, it was learned that the former head of Bawag, Helmut Elsner, was arrested in France on suspicion of fraud and related charges. Mr. Elsner supervised Bawag from 1995 to 2003.

4) The April 2006 SEC Complaint Against A. Badian, Jacob Spinner, Mottes Drillman, Jeffrey Graham, Pond Securities, Ezra Birnbaum and Shaye Hirsch

41. On April 4, 2006, the SEC filed yet another civil complaint involving manipulation of SEDONA's stock (the "2006 SEC Complaint").

42. The 2006 SEC Complaint named the following individuals as defendants: A. Badian, Jacob Spinner ("Spinner"), Mottes Drillman ("Drillman"), Jeffrey Graham ("Graham"), Pond Securities Corporation ("Pond"), Ezra Birnbaum ("Birnbaum"), and Shaye Hirsch ("Hirsch").

43. As detailed in the 2006 SEC Complaint, A. Badian, Spinner, Drillman, and Graham engaged in a pattern of falsified trading records, manipulative short selling of SEDONA's stock and conspiracy to manipulate SEDONA's stock price. The 2006 SEC Complaint also alleges that Pond, Birnbaum and Hirsch failed to adequately supervise Spinner and Drillman.

44. The 2006 SEC Complaint alleges that A. Badian and others, acting for Rhino, an unregistered investment firm, used short selling to manipulate SEDONA's stock price downward to favor the financial interests of Rhino's client, Defendant Amro.

45. This conduct constituted a fraud on SEDONA and the market for SEDONA's shares.

46. The 2006 SEC Complaint states that Spinner, Drillman and Graham collaborated with and assisted A. Badian in carrying out this scheme. Spinner, Drillman and Graham each took orders from A. Badian, and knew of his intention to manipulate SEDONA's stock price downward. Spinner and Drillman each executed purchases and sales of SEDONA shares at Refco and Pond, themselves or by directing Graham or others to do so.

47. According to the 2006 SEC Complaint, during March 2001, A. Badian directed trading in SEDONA that comprised approximately 40% of all trading in the stock. During that period, SEDONA's share price dropped from an average of $1.43 per share prior to March 1, 2001, to an average of $.75 per share by March 23, 2001.

48. The 2006 SEC Complaint details a pattern of falsified trading records, manipulative short selling of Sedona's stock and conspiracy between A. Badian,

Rhino, Amro, and the other defendants named in the 2006 SEC Complaint. SEDONA adopts the allegations of the 2006 SEC Complaint as if set forth in full herein.

5) Operation Bermuda Short

49. A two-year Federal Bureau of Investigation and Royal Canadian Mounted Police sting operation known as "Operation Bermuda Short" is one example of the magnitude of stock manipulation and fraud willfully engaged in by parties manipulating the U.S. stock markets. Operation Bermuda Short resulted in the indictments of fifty-eight (58) individuals that were issued in the Southern District of Florida, one of which involved Paul Lemmon (who recently plead guilty) and Mark Valentine, chairman of Thomson Kernaghan & Co., a company that formerly was a securities broker-dealer located in Toronto, Ontario, Canada and recently closed by the Ontario Securities Commission, and also an affiliate of one of the perpetrators herein, as is hereinafter explained. This indictment is filed under Case Number 02-80088, Magistrate Judge Snow, United States District Court for the Southern District of Florida, for violations of 18 U.S.C. 371, 18 U.S.C. 2, 15 U.S.C. 78j(b), and 15 U.S.C. 78ff(a). Mr. Valentine and others are accused of:

> [A] conspiracy for the defendants to unlawfully enrich themselves by defrauding the undercover agent's mutual funds and by fraudulently causing the price of C-Me-Run, SoftQuad Software Ltd., and JagNotes.com Inc. to be artificially increased through payoffs and kickbacks through brokers that were undisclosed to the undercover agent's mutual fund so that the defendants, C-Me-Run, SoftQuad Software Ltd., and JagNotes.com Inc. stock could be sold at a higher value than it was actually worth. It was also the object of the conspiracy for the defendants to unjustly enrich themselves by defrauding the shareholders of C-Me-Run, SoftQuad Software Ltd., and JagNotes.com Inc. . . . and is also part

> of a conspiracy that . . . Mark Valentine would cause brokers to receive undisclosed kickbacks for manipulating and artificially increasing the prices of C-Me-Run, SoftQuad Software Ltd., and JagNotes.com Inc.'s stock, and for maintaining the artificially high prices of C-Me-Run, SoftQuad Software Ltd. and JagNotes.com Inc. stock for a period of months by arranging for the sale of C-Me-Run, SoftQuad Software Ltd. and JagNotes.com Inc. stock to customers of brokers . . . caused to be listed in this scheme by bribing them.

50. Additionally, the Ontario Securities Commission in its separate ongoing investigation into stock trading by Valentine stated on July 31, 2002 that it was:

> . . . satisfied that Staff has provided sufficient evidence of conduct that may be harmful to the public interest and, accordingly justifies an extension of the temporary order. There is little doubt that additional time is required to complete the investigation and, unless the temporary order is extended, there is a reasonable likelihood that Valentine's alleged objectionable conduct may continue. Such conduct would present a serious risk to the integrity of Ontario's capital markets as well as to the protection of the public interest.

D) Ladenburg and Rhino's Setup/"Bait and Switch"

51. As is typical for Ladenburg and Rhino and other death spiral perpetrators, Ladenburg set up SEDONA using a "bait and switch" technique. Ladenburg enticed SEDONA with the promise of a great deal of investment money from established investors, as well as market support and research coverage; however, Ladenburg and Rhino only delivered a very insubstantial and insufficient portion of those funds to SEDONA through offshore shell companies, and never provided the promised market support or research coverage. Specifically, they persuaded SEDONA to increase its shelf registration of stock to a value of $50 Million and initially contracted in writing to provide much more cash to SEDONA than they really intended to raise. This all commenced with a letter SEDONA signed with

Ladenburg on January 24, 2000 ("January 24, 2000 Ladenburg Letter," the entire contents of which is incorporated herein by reference).

52. In the January 24, 2000 Ladenburg Letter, Ladenburg, in its capacity as financial advisor to SEDONA, agreed to provide up to $15 Million in financing. It was Ladenburg who induced SEDONA to increase its shelf registration to $50 Million based on the representation that Ladenburg would ultimately (over a reasonable period of time) obtain investors to fund up to $50 Million ("March 8, 2000 Ladenburg Letter"). Unfortunately for SEDONA, the original funding placed through Ladenburg investors was only $3 Million of SEDONA's Series G Preferred, which was purchased by purported investors who are defendants herein. This original $3 Million was termed "bridge financing" and was to be followed by the additional $12 Million that was promised in the January 24, 2000 Ladenburg Letter and the additional $47 Million that was promised in the March 8, 2000 Ladenburg Letter.

53. The "bait-and-switch" activity described in this section commences by "baiting" the potential client - promising a substantial capital investment from well-known and established entities, as well as market support and research coverage. The "bait" is then followed by the "switch". What the client actually receives at closing is only a minor capital investment from an offshore nominee shell company, and no market support or research coverage is provided. This activity has been repeated numerous times by Ladenburg and Rhino.

54. All of the investors in the Series G Preferred, Amro, Markham, Aspen, The Cuttyhunk Fund Limited c/o Optima Fund Management L.P. ("Cuttyhunk"), and

The George S. Sarlo 1995 Charitable Remainder Trust ("Sarlo Trust"), were investors placed by or through Ladenburg (the "Ladenburg Investors"). Accordingly, Ladenburg had previously represented and was representing at the time of the occurrences described in this Complaint, all of the Ladenburg Investors, including Badian, Rhino, Roseworth and Cambois in its dealings with SEDONA, and upon information and belief, was acting as agent for each in connection with the transactions complained of herein.

55. The Ladenburg Investors purchased SEDONA's stock by means of the Convertible Preferred Stock and Warrants Purchase Agreement entered into on February 25, 2000 (the "Convertible Agreement"). Therein, the Ladenburg Investors covenanted that their trading activities would comply with state and federal securities laws, and that they would not sell SEDONA's stock short while any of the convertible preferred shares owned by such investors remained issued and outstanding.

56. Upon information and belief, Defendants Markham, Aspen and Amro breached the terms of the Convertible Agreement by engaging in short sales of SEDONA stock while the convertible preferred stock remained outstanding. Markham, Aspen and Amro also breached the Convertible Agreement by failing to ensure that their trading activities complied with applicable state and federal laws.

57. The basis for SEDONA's belief that Markham, Aspen and Amro violated the Convertible Agreement is the fact that within days after the closing of the Series G financing, the volume of trading in SEDONA's stock skyrocketed. On February 25, 2000, approximately 241,677 shares of SEDONA stock were traded,

and on February 29, 2000, approximately 302,206 shares traded. However, from March 1st through March 8, 2000, more than 1,000,000 shares of SEDONA stock traded each day, with over 2,000,000 shares being traded on March 1st, 3rd, 6th and 7th.

58. This dramatic increase in trade volume in SEDONA stock was followed by a sharp drop in SEDONA's stock price.

59. SEDONA was damaged by the breach of the Convertible Agreement by Amro, Markham and Aspen because their illegal trading activity caused Sedona's stock to dramatically decline in price, resulting in a dramatic decrease in the company's market capitalization.

60. SEDONA fully complied with the terms of the Convertible Agreement. SEDONA caused its registration statement to remain effective, kept shares available, complied with the law, and maintained a listing of its common stock on a principal market.

E) Some of the Public Companies the Defendants "Financed/Invested In" through "Death Spiral Financing Contracts"

61. Defendants Ladenburg, Rhino, Amro, Aspen, Markham, Roseworth and Cambois have engaged in other death spiral schemes that have victimized companies other than SEDONA. These AMEX, NASDAQ, or OTCBB companies experienced significantly declining stock prices after receiving investments and/or financing from either Ladenburg, Rhino, Amro, Aspen, Markham, Roseworth or Cambois, or other clients of Ladenburg or affiliated entities. Accordingly, Ladenburg should have known that the investors with whom it was placing SEDONA stock would engage in similar "death spiral" financing contracts and ultimately cause damage

to or even destroy SEDONA. A sampling of those transactions is set forth in the following chart:

TABLE OF DEATH SPIRAL INVESTMENTS BY DEFENDANTS AND THEIR AFFILIATES

Company Name	Purchasing Parties Involved	1st SEC Filing Date Naming One or More Purchasing Parties Involved	Highest Share Price Following SEC Filing Date	Price as of 3/13/03
Advanced Viral Research Corp.	Roseworth\BNC Bach	11/17/00	1.75	0.06
ALPNET, Inc.	Ladenburg\Resonance Ltd.	7/14/00	No Data Available as appears to be out of business	0.00
American International Petroleum Corporation	Amro\Canadian Adv. Ltd. Partnership\Dominion Cap\Sovereign Partners	9/9/99	7.13	0.0118
Ameriquest Technologies, Inc.	Ladenburg\Wanquay Ltd. (Batliner)	8/14/00	.50	0.001
Brightcube, Inc.	Amro\Aspen	7/31/00	No Data Available as appears to be out of business	0.00
Brilliant Digital Entertainment, Inc.	Amro\Roseworth\Curzon Capital (Rhino)	12/11/98	14.93	0.16
Calypte Biomedical Corporation	Amro\Ladenburg	11/3/00	2.84	0.05
Detour Media Group, Inc.	Amro\Markham	7/3/01	No Data Available as appears to be out of business	0.0001
Ecogen Inc.	Amro\Markham\Aspen	3/16/00	Approx. 5.25	0.11
Esynch Corporation	Amro\Aspen\Batliner\Rhino	10/28/99	16.38	0.03
Famous Fixins, Inc.	Amro\Roseworth	11/23/99	1.94	0.016
FOCUS Enhancements, Inc.	Amro\Roseworth\BNC Bach	6/21/99	9.81	0.66
Group Management Corp.	Amro\Markham	4/18/01	27.60	.019
General Magic, Inc.	Ladenburg\Paul Revere Capital (David Sims)	9/14/00	8.50	0.001

Company Name	Purchasing Parties Involved	1st SEC Filing Date Naming One or More Purchasing Parties Involved	Highest Share Price Following SEC Filing Date	Price as of 3/13/03
Imaging Diagnostic Systems Inc.	Amro\Aspen	4/12/99	6.50	0.18
Imaginon, Inc.	Ladenburg\Southshore Capital Fund\Tailwind Fund\Resonance Ltd.	1/12/00	14.79	0.01
MW Medical, Inc.	Roseworth\Batliner\Markham	9/3/99	4.91	0.01
ObjectSoft Corporation	Amro\Aspen\Roseworth	8/16/99	Approx. 9.25	0.0007
Pet Quarters, Inc.	Ladenburg\Amro\Batliner\Markham	6/8/00	Approx. 4.00	0.0002
Viragen, Inc.	Amro\Ladenburg\Markham	12/9/99	5.00	0.07
WaveRider Communications, Inc.	Amro\Ladenburg\Batliner	10/28/99	15.84	0.1

F) About SEDONA - originally NASDAQ SmallCap (now OTCBB) - Company Symbol SDNA

62. SEDONA is a leading provider of Customer Relationship Management (CRM) application software and services for small to mid-sized businesses. The Company designed and built a comprehensive CRM solution specifically tailored for its first target market – small to mid-sized financial services institutions, comprised primarily of community banks, credit unions, insurance companies and brokerage firms. In fact, SEDONA is one of the top providers of CRM application software for financial institutions with total asset value/annual premium volume of $3 Billion or less. During all times relevant to this Complaint, SEDONA formed key business relationships with IBM and E.piphany as well as other leading software providers for the financial services market such

as Fiserv, Inc., Sanchez Computer Associates, Inc., Open Solutions Inc., COCC, Financial Services, Inc. and AIG Technologies, Inc. Had the technology and business plan of SEDONA not been sound: (a) these business relationships would not have been formed; and (b) the defendants herein would not have identified SEDONA as a target "victim" to attempt to destroy. To maximize their profit from this scheme, the defendants needed a fundamentally sound company with strong market liquidity so as to maximize the amount they could drain from the target company's market capitalization and share price. SEDONA proved to be a good target for their death spiral manipulation scheme. SEDONA was in a position to be an industry leader when it was preyed upon by the defendants who orchestrated its downfall.

G) The Chronology and Salient Facts

63. Commencing in the fall of 1999, SEDONA became aware that the CIMS business unit ("CIMS") of Acxiom Corporation was potentially available for acquisition. CIMS was a provider of Marketing Customer Information File systems to banks and credit unions. At the time, SEDONA saw the acquisition of CIMS as an enhancement to SEDONA's plan to develop and market its CRM software to the financial services market. This acquisition, combined with SEDONA's aggressive internal software development plan, would enable SEDONA to be the first company to introduce a comprehensive CRM solution for the small to mid-sized market and establish itself as a leading technology provider in the CRM market. If SEDONA could secure appropriate capital funding to build its personnel infrastructure and to implement its sales and marketing strategies, it

would have a formidable opportunity to capture a significant share of the multi-billion dollar CRM application software market.

64. Immediately preceding the acquisition of the CIMS business unit from Acxiom Corporation, SEDONA began to look for potential sources of capital funding to ensure that it would be properly capitalized after the acquisition to execute its business and technology plans.

65. On August 19, 1999, Vasinkevich, of Ladenburg, sent SEDONA a letter ("August 19, 1999 Ladenburg Letter") soliciting its business. The August 19, 1999 Ladenburg Letter was actually a follow up to an unsolicited proposal, dated July 1, 1999, sent to SEDONA by Vasinkevich and Tohn, then at Paul Revere Capital Corp., offering their investment banking services. In the August 19, 1999 Ladenburg Letter, Vasinkevich represented: *(a) Ladenburg is a "123-year old full-service investment bank and one of the oldest members of the New York Stock Exchange"; (b) Ladenburg can perform a full range of investment banking services, with research analysts covering over 80 companies; (c) Ladenburg has access to more than $50 Billion in investment capital; and (d) Ladenburg specializes in providing a method of financing that "offers market ambiguity as to timing and dollars raised, keeping short sellers and arbitrageurs at bay".*

66. Accompanying the August 19, 1999 Ladenburg Letter was a promotional brochure ("Brochure"), which represented in writing that since 1991 Ladenburg had raised over $6.3 Billion in public and private financings. The Brochure is incorporated herein by reference. All the representations in the August 19, 1999 Ladenburg Letter and Brochure were made by Vasinkevich. Vasinkevich and

Tohn also personally corroborated and attested to everything Ladenburg said and made such representations as agents of Ladenburg.

67. Vasinkevich, Boris and Smith during all relevant times held executive officer positions at Ladenburg and, along with Tohn, held signatory power on behalf of Ladenburg, thus controlling the day-to-day corporate actions of Ladenburg. Boris was an Executive Vice President at Ladenburg, Vasinkevich was a Managing Director of its Investment Banking Division, and Tohn and Smith were Managing Directors in Ladenburg's Structured Finance Group. Accordingly, each of Vasinkevich, Boris, Smith and Tohn had the power to direct or cause the direction of the management and policies of Ladenburg, and as such had the power and authority to cause, and upon information and belief, did cause, the wrongful conduct of Ladenburg complained of herein.

68. In approximately August of 1999, Vasinkevich made representations to Bill Williams, Chief Financial Officer of SEDONA ("Williams"), that Ladenburg had done suitable financing for PLC Medical Systems, Inc., Kafus Industries Ltd., Valance Technology, International Isotopes Inc., ImaginOn, Inc., Adrenalin Interactive, Inc., Pharmos Corporation, Supergen Inc., and Zila, Inc. At or about the same time SEDONA and its attorneys were preparing the initial complaint in this action, only three of those companies were still trading on the NASDAQ (having suffered huge price declines), while three were trading in the Pink Sheets with prices below $0.02 and $0.01. Three of the companies cannot be found anywhere.

69. At the time Vasinkevich made his representations, Vasinkevich knew but failed to disclose that the companies described in the preceding paragraph were being victimized by death spiral securities schemes.

70. In a conference call on September 29, 1999 attended by Vasinkevich and Tohn, as well as Williams, Vasinkevich and Tohn represented Ladenburg as the "Goldman Sachs of small cap companies". Vasinkevich and Tohn reiterated to Williams that the funding methods that they participated in with their clients and the clients of Ladenburg, were of a non-toxic method that minimized dilution, while keeping short sellers and arbitrageurs at bay. This conference call and other communications were followed by a December 28, 1999 letter ("Deal Letter") in which Vasinkevich again expressed the strong desire to provide financing to SEDONA. In writing, Vasinkevich was clear: "I believe we are well positioned to provide you with a complete suite of services including fund raising, research, market making, strategic advice, and introductory services to synergistic business partners."

71. In December 1999, Smith, on behalf of Ladenburg, made oral misrepresentations to SEDONA regarding Ladenburg's role as the exclusive placement agent for SEDONA, the timing of the financing, and the success of prior investments arranged by Ladenburg in similarly situated companies.

72. What SEDONA now knows is that Ladenburg, Vasinkevich, Tohn and Smith omitted to tell SEDONA: a) they all had prior significant relationships with Rhino and other defendants herein; b) most if not all of the companies in which Rhino and Ladenburg (including other investors and clients of Ladenburg and Rhino)

had invested or placed investments have suffered from illegal naked short selling followed by steep stock price declines; c) Rhino and other clients of Ladenburg, and Ladenburg itself, were known shorters of stock and manipulators of stock; and d) Ladenburg, Rhino and other of their clients intended to have SEDONA ultimately contract with an offshore entity as the purchaser of the securities thereby limiting the ability of SEDONA to hold any entity accountable for the damage they planned to inflict.

73. In reasonable reliance upon the foregoing representations, notwithstanding that SEDONA had several other companies whom it could have engaged to procure financing, SEDONA's Finance Committee of Board of Directors chose to hire Ladenburg as its investment banker and financial advisor.

74. Pursuant to this decision by the Finance Committee of the Board of SEDONA, on January 14, 2000, at SEDONA's offices in King of Prussia, Pennsylvania, representatives of SEDONA, former CFO Williams and CEO Marco Emrich, met with Vasinkevich and were introduced to Badian, the President of Rhino. At this meeting, the parties discussed SEDONA's future business plans, contracts with its clients, prospective business customers, and possible funding strategies. SEDONA also allowed Vasinkevich and Badian to review several corporate documents, contracts and agreements.

75. Vasinkevich introduced Badian, on behalf of Rhino, as a potential participant in the SEDONA funding. Badian was a controlling party of Rhino during all relevant times herein, was President of Rhino, along with signatory power, having signed and received documents involving the transactions complained of herein.

Accordingly, Badian had the power to direct or cause the direction of the management and policies of Rhino, and had the power and authority to cause, and upon information and belief, did cause, the wrongful conduct of Rhino complained of herein. At such time, Badian, on behalf of Rhino and Vasinkevich, represented that: a) Rhino had been involved in a number of fundings; b) substantially all the companies Rhino funded were doing well with respect to stock price; c) Rhino was (along with all other investors) an accredited investor; and d) Rhino was a long-term investor and was only interested in what was in the best long-term interest of SEDONA.

76. In reasonable reliance upon the above representations, SEDONA countersigned the January 24, 2000 Ladenburg Letter, which provided for Ladenburg to be the "exclusive placement agent and financial advisor" to SEDONA. Boris, the Executive Vice President of Ladenburg, executed the January 24, 2000 Ladenburg Letter on Ladenburg's behalf.

77. Subsequent to the date of the January 24, 2000 Ladenburg Letter, Vasinkevich and Tohn convinced SEDONA, and Williams, in his capacity as CFO of SEDONA, to increase the gross proceeds of the shelf registration to $50 Million, which agreement was codified in the March 8, 2000 Ladenburg Letter, executed by Boris, on behalf of Ladenburg. In reliance on the March 8, 2000 Ladenburg Letter, SEDONA spent a substantial sum of money and an extraordinary amount of time getting the shelf registration accomplished. SEDONA now knows that Ladenburg, Rhino, and all the other defendants herein never had any intention of funding any significant portion of this $50 Million, but instead used this as a part

of the "bait and switch" method they had used previously in numerous other deals. In doing so, Ladenburg and Rhino sought to convince SEDONA that it needed to eliminate the pursuit of any other financiers, stating that all the financing SEDONA could ever need would be produced by these defendants or other investors of Ladenburg.

78. In February 2000, Ladenburg, through Rhino, caused defendants Markham, Aspen, Cuttyhunk, Sarlo Trust and Amro to purchase SEDONA stock by means of a first traunche financing for Series G Preferred stock along with warrants.[1] Ladenburg represented that this initial financing was to be a bridge financing until it secured investments for the balance of the promised $50 million investment in SEDONA.

79. In March 2000, SEDONA began preparing a press release in reliance on the above-referenced Ladenburg and Rhino representations to announce to the investment community the increase of its shelf registration to $50 Million and to demonstrate that SEDONA had begun the process of securing a more substantial level of funding, which would allow SEDONA to take advantage of the favorable CRM application software market conditions.

80. On or about March 24, 2000, representatives of SEDONA spoke with Smith regarding Ladenburg's role as the company's financial advisor. At that time, Smith made representations to SEDONA regarding Ladenburg's obligations to use its best efforts to market SEDONA's securities, and that Ladenburg's market making role in SEDONA's stock would amount to 10% of SEDONA's float.

---

[1] On or about October 21, 2003, the Honorable Kimba M. Woods So Ordered a Standstill Agreement between Sedona and defendants Cuttyhunk, Sarlo Trust and Geoffrey Lewis discontinuing the litigation against them without prejudice.

81. These representations by Smith were false, since SEDONA was later advised by Ladenburg that it could not act as a market maker while it was raising funds for SEDONA. In fact, Ladenburg did not use its best efforts to market SEDONA's securities but instead continued to sell the securities to Ladenburg's death spiral practitioner clients, who Ladenburg knew would manipulate SEDONA's stock.

82. The following control relationships of the Ladenburg Investors are important, as the controlling parties of such Ladenburg Investors are jointly and severally liable for the manipulative behavior of the controlled parties pursuant to § 20 of the Exchange Act.

83. Hassan was a director and signatory on behalf of Markham, who signed the investment documents on behalf of Markham in the Series G Preferred investment, thus controlling the corporate action of Markham at all relevant times herein. Accordingly, Hassan had the power to direct or cause the direction of the management and policies of Markham, and as such had the power or authority to cause, and upon information and belief, did cause, the wrongful conduct of Markham complained of herein.

84. On behalf of Markham, and pursuant to the death spiral scheme Hassan signed the conversion notices that were sent to SEDONA, on June 28, 2000 and August 28, 2000, which notices permitted Markham to obtain the shares of SEDONA stock that it would use to cover its manipulative short sales.

85. Based on these conversion notices, Markham, one of the original Series G investors, received approximately 70,000 shares of SEDONA stock, and directed that those shares be delivered to defendant Westminster.

86. Rieden was a director and signatory on behalf of Aspen, who signed the investment documents on behalf of Aspen in the Series G Preferred investment, thus controlling the corporate action of Aspen at all relevant times herein. Accordingly, Rieden had the power to direct or cause the direction of the management and policies of Aspen, and as such had the power or authority to cause, and upon information and belief, did cause, the wrongful conduct of Aspen complained of herein. It is also important to note that Aspen and Cuttyhunk used the same address in San Francisco at all relevant times herein.

87. As a director of Aspen, Rieden directed or instructed others at Aspen to forward conversion notices to SEDONA pursuant to the death spiral scheme. These notices were sent to SEDONA on June 28, 2000, October 16, 2000, September 8, 2000, November 1, 2000 and November 7, 2000. The notices permitted Aspen to obtain the shares of SEDONA stock that it used to cover its manipulative short sales.

88. Through these conversion notices, Aspen, one of the original Series G investors, received approximately 300,000 shares of SEDONA stock and directed that those shares be delivered to Rampart Securities, Inc. ("Rampart"), located in Canada. Rampart was registered under Ontario securities laws as a Broker and Investment Dealer. Upon information and belief, Aspen traded SEDONA stock through Rampart. Such trades were intended to be manipulative because in Canada, an investor does not have to comply with the short-selling requirements of the United States.

89. Upon information and belief, Rampart is also the same Canadian broker-dealer that Badian used to manipulate SEDONA's stock on behalf of Amro, as alleged in the 2003 SEC Complaint.

90. Rampart has been cited for several securities violations, has been the target of Canadian investigations since 1997, and was a target in Operation Bermuda Short investigation described in paragraphs 49-50. On or about August 14, 2001, Rampart's business was shut down by the Ontario Securities Commission and the Investment Dealers Association of Canada for a litany of securities trading violations.

91. Bachofen was a director and signatory on behalf of Amro (a Panamanian corporation), who signed the investment documents on behalf of Amro in the Series G Preferred investment. Upon information and belief, UltraFinanz AG ("UltraFinanz") is the employer of Bachofen and its address is also listed as the address in which to send documents on behalf of Amro in the Series G Preferred investment documentation. Rhino is listed as the fund manager of Amro in publicly-filed documents with the SEC, and Badian is a signatory on behalf of Rhino. Accordingly, each of Bachofen, Rhino and Badian controlled the corporate action of Amro at all relevant times herein. Thus, each of Bachofen, Rhino and Badian had the power to direct or cause the direction of the management and policies of Amro, and as such had the power or authority to cause, and upon information and belief, did cause, the wrongful conduct of Amro complained of herein.

92. On behalf of Amro, Bachofen signed the conversion notices that were sent to SEDONA on March 27, 2001, April 5, 2001, April 10, 2001, April 16, 2001, May 1, 2001, May 15, 2001, June 20, 2001, September 25, 2001, October 15, 2001 and February 25, 2002, pursuant to the death spiral scheme. These notices permitted Amro to obtain the shares that it used to cover its manipulative short sales of SEDONA stock. On behalf of Amro, Bachofen also signed the April 30, 2001 Extension Agreement with SEDONA and the February 14, 2002 Settlement Agreement ("Settlement Agreement") between Amro and SEDONA. Bachofen also signed a notice of exercise of warrant on behalf of Amro on April 25, 2002.

93. The Amro conversion notices signed by Bachofen were forwarded to SEDONA by Rhino and the conversion shares were directed to be delivered to Rhino. Additionally, Rhino, Badian and others, along with Bachofen, directed all of Amro's trading in SEDONA stock.

94. When SEDONA received the conversion notices from Bachofen on behalf of Amro, SEDONA promptly issued the shares of stock to Amro. Upon information and belief, at the direction of Bachofen, these shares were used to cover Amro's manipulative short-sales. All of Amro's trades, sales, conversions, and short sales in SEDONA stock were executed at the direction and control of Bachofen, with the culpable participation of Badian, Rhino and U.S. broker-dealers and market makers.

95. During the relevant time period, Bachofen was a director of Amro. A May 23, 2000 Form DEF 14A filing in connection with Hawaiian Natural Water Co. Inc., identifies Amro as an investment account, whose sole signatories are Bachofen

and Michael Klee. In a May 26, 2000 Form SB-2 filing by Stockgroup.com Holdings Inc., Amro is identified as a private investment fund with Bachofen as a director and principal.

96. Bachofen knew or was reckless in not knowing that Amro had a history of "death spiral" manipulation. Bachofen directed Amro's manipulative sales in SEDONA stock, directly participated in the manipulative scheme, and personally derived significant economic benefits from Amro's illegal schemes directed against SEDONA.

97. Amro, Markham and Aspen misrepresented their intentions when they purchased SEDONA's preferred stock. They were never interested in a long term investment in SEDONA. Rather, they intended to acquire SEDONA's preferred stock and to manipulate its common stock price downward to benefit from the decline in stock price and the conversion formula in the agreement.

98. In January 2000, approximately one month before the closing of the Series G financing, Tina Prountzos (a member of Ladenburg's Investment Banking Group) visited SEDONA's offices. During this visit, SEDONA presented Ladenburg with its business and projections models. Thereafter, on January 31, 2000, Prountzos on behalf of Ladenburg e-mailed SEDONA an Information Request List, requesting additional information about the company.

99. On or about April 10, 2000, Williams of SEDONA received a facsimile from Peter Stankard, the Director of Investment Banking at Ladenburg. The facsimile contained a Due Diligence Outline of documents that Ladenburg wanted to review, including but not limited to, names of major prospective customers,

material customer contracts, planned or expected financing or business relationships not yet completed or executed, licensing agreements and other relevant agreements. On or about April 11, 2000, Williams and Marco Emrich of SEDONA met with Peter Stankard. At this meeting, SEDONA discussed the information gathering process involved in preparing a private placement memorandum, and SEDONA presented Ladenburg with its business and projections models. SEDONA also disclosed the industries and territories that its sales and marketing groups were targeting.

100. In reviewing the stock trading activities in hindsight, it is apparent that several irregularities occurred (some of which are set forth in the SEC Complaints and the Criminal Complaint), with respect to the stock of SEDONA. The stock of SEDONA rapidly rose and traded in unprecedented volumes in or around the time when the first traunche financing for the purchase of Series G Preferred closed on February 25, 2000, and Ladenburg suggested the shelf registration be increased to $50 Million. The initial investment coupled with the misrepresentation regarding the commitment to obtain the additional $50 Million of financing was used as a trick to also mislead the market, thereby spiking the share price up and allowing the manipulators and participants in the conspiracy to defraud SEDONA by illegally manipulating and shorting the stock of SEDONA down from a higher stock price, knowing that the same group of defendants herein (in addition to others who may be determined by SEDONA) never intended to fund any material part of this $50 Million.

101. The misrepresentation by Ladenburg, Boris, Vasinkevich, Tohn and Smith regarding the $50 Million financing was significant. SEDONA was misled by the Defendants into believing that they intended to raise those funds and that SEDONA would have sufficient financial means to execute its business plans and grow its operations. Similarly, shareholders and market participants were led to believe that SEDONA's balance sheet would be strengthened by the continuous influx of cash from future financings. If Ladenburg, Boris, Vasinkevich, Tohn and Smith had fulfilled their obligations to raise the $50 Million, SEDONA's stock price and business operations would not have been damaged.

102. Similarly, the trading activities of Amro, Aspen, Markham, Roseworth and Cambois, clearly shows that they never intended on being long-term investors and planned to manipulate SEDONA's stock for their financial benefit.

103. As an example of the type of activity experienced by SEDONA, the following table reflects volume of trades per day during the period shortly after the February 25, 2000 closing:

March 1, 2000	2,931,800 shares
March 2, 2000	1,241,700 shares
March 3, 2000	2,070,400 shares
March 6, 2000	4,741,300 shares
March 7, 2000	3,956,600 shares
March 8, 2000	1,451,800 shares.

104. These volumes represent the six highest volume trading days in the history of SEDONA, yet SEDONA had no material or substantive news to report other than the shelf registration. During this trading period, the share price peaked at $10.25, before beginning a long and continuous slide to its February 2003 level of

$0.19. This time period began the "pump" portion of the transaction by the named defendants (in addition to others yet to be identified) herein. It took only until June and July of 2000 for the stock to be manipulated down to a consistent and declining closing price of around $3.00 per share, a decline in market capitalization of $195,000,000 in approximately 90 days.

105. The Common Stock underlying the Series G Preferred was registered by way of a Prospectus that went "effective" on June 27, 2000. The Series G Preferred had a minimum conversion price of $3.50 until June 27, 2000, after which time there was no minimum conversion price and the conversion would be determined according to a formula based on the market price of SEDONA's stock. As such, on the date that the registration became effective, Defendants, Markham, Aspen, and Amro were free to convert their Series G Preferred stock holdings, under the terms and conditions set forth in the Convertible Agreement, in the aggregate amount of $3 Million, without a minimum conversion price. The Series G Preferred financing was intended to be a bridge financing until the shelf registration representing the balance of the $50 million commitment would become effective. The idea was that funds raised pursuant to the $50 million commitment would be used to retire the Series G Preferred and enable the Company to sell blocks of registered stock to the Ladenburg Investors over time, as needed by SEDONA.

106. In a pattern similar to that set forth in the SEC Complaint, the Ladenburg Investors benefited enormously by illegally short-selling stock at the higher prices (which they were contractually prohibited from doing in their agreement, as no

short sales were allowed) all the way down to and below the minimum conversion price of $3.50, and benefited by not reporting the illegal short sales as such, but rather presented them to the marketplace as regular "long" sales. For example, the SEC Complaint alleges, with respect to Rhino's manipulative scheme in which Ladenburg was a participant and co-creator, that "Rhino's trading allowed the Client to profit from the scheme in at least two ways. First, the short sales locked in a sale price for the SEDONA stock that was higher than the conversion price for the shares ultimately used to cover the open short positions. Second, Rhino's short sales increased the supply of SEDONA shares in the market and depressed the price. As a result of the depressed market price, the Client converted the Debenture to a greater number of shares of SEDONA stock, which were already discounted to the market, and which it then used to cover its previous short sales made at higher prices." This and similar actions, by the Ladenburg Investors, occurred between the time period of the initial funding of the Series G Preferred in February 2000 up to and including June 27, 2000 and beyond.

107. In essence, the Ladenburg Investors, through dummy and nominee shell corporations (and agents) counterfeited SEDONA stock by illegally short-selling stock that was neither registered nor owned by them, with an intent, if need be, to cover with conversion shares or not cover at all. The Ladenburg Investors then sold at the high price of approximately $10.25 a share, then manipulated the price down. to the minimum of $3.50 to make the maximum amount of profit of $6.75 (between the shorted price of approximately $10.25, more or less, and the $3.50 conversion price), presumably on millions of shares, based upon patterns

described in the SEC Complaint. When the $3.50 minimum conversion expired on June 27, 2000, defendants were then able to increase their profits beyond the $6.75 spread, and perhaps more importantly, increase the amount of shares the preferred stock was convertible into. Note that the SEC Complaint only deals with manipulation occurring for 31 trading days in 2001 when approximately 1.2 Million shares were illegally shorted and not delivered for settlement. SEDONA believes that this type of manipulation started occurring at the time when it became involved with the defendants.

108. Not surprisingly, SEDONA received conversion notices from Markham, Amro, and Aspen on June 28, 2000, Cuttyhunk on August 4, 2000, Markham on August 28, 2000, Aspen on September 5, 2000, Cuttyhunk on October 3, 2000 and on October 8, 2000, Aspen again on October 16, 2000, with more conversions from the Ladenburg Investors on October 31, 2000, November 2nd, 6th, and 22, 2000. The remainder of the Series G Preferred holders were thereafter paid by the company in cash totaling $2,246,000, in lieu of conversion, in the hope that the stock manipulation would stop and this raid on SEDONA, intentionally inflicted by the defendants herein in a massive conspiracy (including others yet to be identified), would cease. Unfortunately, SEDONA could not determine who was manipulating its stock, since defendants repeatedly misrepresented that they were not the cause for the price decline. Today, SEDONA knows it was (as is set forth in the SEC Complaint) the defendants herein manipulating its stock, cloaked by the use of other names, nominee shell companies, and dummy accounts, along with cooperating U.S. and Canadian broker-dealers and market participants.

109. The Finance Committee of the Board of SEDONA held a meeting right after its shareholders' annual meeting, on June 28, 2000, in New York, that Vasinkevich was invited to and attended. The purpose of the meeting was to: a) question Vasinkevich's knowledge about market irregularities; b) discuss new financing; and c) ask Vasinkevich about other Ladenburg services he had represented would be available to SEDONA, most notably market support and research coverage. Minutes of this meeting show that the Finance Committee recommended the company move ahead as soon as possible with a first take down of the shelf registration by raising $3 Million per the January 24, 2000 Ladenburg Letter, based upon Vasinkevich's representations that his investors were not causing this market manipulation. Furthermore, the minutes show further representations by Vasinkevich regarding commencement of market support and research coverage by Ladenburg. At this time SEDONA also made Ladenburg aware that SEDONA had formalized relationships with IBM and E.piphany. Even after public release of this information, SEDONA's stock continued to decline. SEDONA finds it most bizarre that based on its discussions with Ladenburg regarding increasing the shelf registration its stock rose to $10.25, yet upon the biggest event in SEDONA's history, its new relationship with IBM, the stock continued its downward spiral. The most reasonable explanation for this market decline in the face of strong positive news is the continuation of the manipulative conspiracy and scheme by the defendants herein (including others yet to be identified).

110. Upon information and belief, in connection with the manipulation scheme, Aspen engaged in manipulative short-sales and naked short-sales of Sedona stock after

the closing of the Series G financing. Thereafter, Aspen issued conversion notices to SEDONA on June 28, 2000, October 16, 2000, September 8, 2000, November 1, 2000 and November 7, 2000. The notices permitted Aspen to obtain the shares of SEDONA stock that it used to cover its manipulative short sales. Through its conversion notices, Aspen, one of the original Series G investors, received approximately 300,000 shares of SEDONA stock.

111. Upon information and belief, in connection with the manipulation scheme, Markham engaged in manipulative short-sales and naked short-sales of Sedona stock after the closing of the Series G financing. Thereafter, Markham issued conversion notices to SEDONA on June 28, 2000 and August 28, 2000, which notices permitted Markham to obtain the shares of SEDONA stock that it used to cover its manipulative short sales. Through its conversion notices, Markham received approximately 74,351 shares of SEDONA stock and directed that those shares be delivered to Westminster.

112. Upon information and belief, in connection with the manipulation scheme, Amro engaged in manipulative short-sales and naked short-sales of Sedona stock after the closing of the Series G financing. Thereafter, Amro issued conversion notices to SEDONA on June 28, 2000 and November 3, 2000, which notices permitted Amro to obtain the shares of SEDONA stock that it used to cover its manipulative short sales. Through these conversion notices, Amro received approximately 182,292 shares of SEDONA stock.

113. When SEDONA questioned Vasinkevich as to the perplexing stock price movements, Vasinkevich assured SEDONA that: a) the Ladenburg Investors

were long-term investors; b) the Ladenburg Investors were not responsible for any manipulation or any events which were not in the best interest of SEDONA; and c) those investors did not cause, directly or indirectly, any aspect of SEDONA's continuing stock decline.

114. However, in an attempt to address SEDONA's concerns and out of an abundance of caution, the funds that Vasinkevich represented he could use to replace the Ladenburg Investors were new investors placed through Ladenburg, Roseworth and Cambois. In reasonable reliance upon these representations, SEDONA agreed to allow Ladenburg to continue as its fiduciary, investment banker and financial advisor, and to begin formalizing the financing with Roseworth and others.

115. Addressing SEDONA's concerns about irregular trading activity in its stock, Ladenburg, Vasinkevich, Rhino and Badian represented that they would find new investors for SEDONA.

116. Thereafter, on August 3 and August 4, 2000 Smith, on behalf of Ladenburg, proposed several different financing options to representatives of SEDONA via telephone call and e-mail.

117. On behalf of Ladenburg, Vasinkevich and Smith negotiated with SEDONA with respect to the subsequent financing transactions with the alleged new investors, Roseworth and Cambois.

118. Smith and Williams, corresponded with each other on August 4, 2000 regarding the terms of the proposed financing transactions with Roseworth and Cambois.

119. On or about August 18, 2000, Ladenburg closed the financing transaction between Roseworth and SEDONA through a stock purchase agreement whereby Roseworth purchased approximately 476,190 shares of SEDONA stock at $2.10 per share, for $1,000,000. The agreement was signed by Gassner as Authorized Signatory of Roseworth.

120. One month later, on or about October 19, 2000, Ladenburg closed another financing transaction between Roseworth and SEDONA through a stock purchase agreement whereby Roseworth purchased approximately 952,380 shares of SEDONA stock for $1.05 per share, for $1,000,000. The agreement was signed by Gassner as Authorized Signatory of Roseworth.

121. On or about December 5, 2000, Ladenburg closed an additional financing transaction between Cambois and SEDONA through a stock purchase agreement whereby Cambois purchased approximately 1,030,928 shares of SEDONA stock for $0.97 per share for $1,000,000. The agreement was signed by Gassner as Authorized Signatory of Cambois.

122. As participants in the manipulative scheme and in furtherance of the scheme, Roseworth and Cambois purchased the foregoing 2,459,498 shares of SEDONA stock in connection with the three financings during the Fall of 2000.

123. Roseworth and Cambois's shares were delivered to the same brokerage account at Pershing which was used by Defendant Rhino on behalf of Defendant Amro.

124. In furtherance of the manipulative scheme, Ladenburg, Rhino, Vasinkevich, Smith and Badian, led SEDONA to believe and represented to SEDONA that Roseworth and Cambois were new independent investors. In reality, Roseworth

and Cambois were wholly-owned subsidiaries of Creon Management S.A. ("Creon"), a British Virgin Island company that is in the business of creating shell companies to "invest" in U.S. companies. SEDONA reasonably relied on those misrepresentations to its detriment.

125. Creon is managed in the United States by Rhino and Badian. Through Amro and Creon, Rhino and Badian retained control over all of the private investors in SEDONA and maintained the ability to continue the stock manipulation scheme. It is therefore clear that Roseworth and Cambois were not new investors, but were actually under the same control and management of Rhino, Badian and Ladenburg, Vasinkevich and Smith.

126. At all relevant times herein, Gassner served as a director and signatory on behalf of each of Roseworth and Cambois. Gassner controlled the corporate actions of Roseworth and Cambois. Gassner had the power to direct or cause the direction of the management and policies of each of Roseworth and Cambois, and as such had the power and authority to cause, and upon information and belief, did cause, the wrongful conduct of each of Roseworth and Cambois complained of herein.

127. After the new financing arranged by Ladenburg, SEDONA's stock continued to experience downward pressure.

128. The representations made by Vasinkevich, who had prior working experience with Badian, were untrue. Vasinkevich omitted advising SEDONA that all of the defendants herein and others associated with these parties were: a) known by Vasinkevich as illegal shorters of stock; b) known perpetrators of stock manipulation; c) participants in past financings with Rhino and were affiliated

with Valentine of Thomson Kernaghan and Stephen Hicks of Southridge Capital (who are death spiral practitioners); d) working for the benefit of the defendants and not for the benefit of SEDONA; and e) conspiring to destroy the stock price of SEDONA. Without knowledge of those facts, SEDONA entered into agreements with Roseworth and Cambois to them common stock of SEDONA. The fact that Roseworth and Cambois are wholly-owned by Creon, which is a company managed by Rhino, was a misrepresentation by omission of Vasinkevich, Badian, Ladenburg, Roseworth, Cambois and Rhino, as the U.S. Manager of Creon. Furthermore, the Roseworth and Cambois shares were instructed to be delivered into the same brokerage account at Pershing as used by Rhino on behalf of Amro.

129. SEDONA suspected that the selling pressure on its stock was exerted by the Series G investors and expressed to Ladenburg its desire to retire the Series G obligation.

130. In reasonable reliance upon Ladenburg's advice and representations as its investment banker and financial advisor, and in reasonable reliance on the misrepresentations of Vasinkevich and Smith, SEDONA entered into another financing transaction with Amro on November 22, 2000.

131. Amro, advised by Rhino and represented by Ladenburg, entered into a Convertible Debentures and Warrant Purchase Agreement ("Purchase Agreement") with SEDONA on November 22, 2000 (also containing a covenant not to engage in short sales and other prohibitions), which resulted in a $3 Million gross funding to SEDONA less fees paid to Ladenburg. However, net proceeds

actually received by SEDONA were much less, as approximately $2,246,000 was used to retire the Series G Preferred. The SEC Complaint is based on this Purchase Agreement and these related activities over a 27-day period.

132. Section 5.2 of the Purchase Agreement prohibited Amro from selling short any SEDONA common stock while the debenture remained outstanding.

133. On or about January 25, 2001, Ladenburg negotiated an additional $1 Million Dollar financing transaction between Amro and SEDONA through a stock purchase agreement whereby Amro purchased approximately 1,538,462 shares of SEDONA common stock.

134. On March 19, 2001, SEDONA and Rhino entered into a Confidential Disclosure Agreement ("Confidential Agreement"), which Badian executed on behalf of Rhino. Therein, SEDONA agreed to provide certain confidential and proprietary information to Rhino, and Rhino agreed not to utilize such information for any purpose other than as set forth in the Confidential Agreement. Thereafter, Badian spent approximately three (3) days at SEDONA's offices reviewing all of the company's contracts, agreements and prospective business plans.

135. On March 19, 2001, SEDONA's CEO sent Badian copies of the company's Executive Business Summary, its financial statements, planned press releases, trade show schedule, which contained material non-public information about SEDONA.

136. Upon information and belief, Rhino and Badian disclosed material, non-public information about SEDONA, its contracts, and its business prospects to

Ladenburg, Markham, Aspen, Amro, Roseworth, Cambois, Westminster, Frankel and Pershing.

137. Rhino and Badian knew or should have known that such information was disclosed in violation of a relationship of trust and in violation of the Confidential Agreement.

138. Rhino and Badian benefited by the disclosure of the material non-public information to Vasinkevich, Ladenburg, Markham, Aspen, Amro, Roseworth, Cambois, Westminster, Frankel and Pershing because they knew that this disclosure would translate into future earnings through additional business from their clients.

139. Thereafter, having knowledge of SEDONA's material, non public information, including prospective contracts and business relationships obtained from Rhino and Badian, defendants Ladenburg, Markham, Aspen, Amro, Roseworth, Cambois, Westminster, Frankel and Pershing set out to destroy SEDONA's stock price through manipulative trading activities, including short sales and naked short sales of SEDONA's stock.

140. The manipulative trading conduct by Ladenburg, Amro, Markham, Aspen, Roseworth, Cambois, Westminster, Frankel and Pershing, and their control persons, Vasinkevich, Tohn, Smith, Hassan, Inder Reiden, Rhino and Badian caused SEDONA's stock price to dramatically decrease. This decrease in stock price adversely affected SEDONA's ability to funds its business plans, hurt the Company's finances, and damaged SEDONA's contractual relationship with its clients and business relationships with its prospective customers.

141. The contractual relationship that was terminated as a result of the defendants Ladenburg, Amro, Markham, Aspen, Roseworth, Cambois, Westminster, Frankel and Pershing's conduct was SEDONA's contract with Sanchez Computer Associates.

142. Sanchez Computer Associates had purchased a non-exclusive perpetual license to private label and market SEDONA technology.

143. In 2002, Sanchez Computer Associates terminated its agreement with SEDONA and sent the company a cancellation/termination letter based on its concerns regarding the continuing and long term survivability of SEDONA's business.

144. The decrease in SEDONA's stock price and the resulting impact on the company's financial strength caused potential purchasers of SEDONA's software to question the viability of SEDONA's business. The concerns of these potential customers about the viability SEDONA's business caused them to reconsider and decline to conduct business with SEDONA.

145. The prospective business relationships that were lost by SEDONA due to defendant Ladenburg, Amro, Markham, Aspen, Roseworth, Cambois, Westminster, Frankel and Pershing's conduct include relationships with Bank Atlantic, USF FCU, Visions CU, Auburn Bank, USFS, Bank United, Oconee State Banks, Financial Services, Inc., and Plumas Bank.

146. In fact, other than Bank United, each of the entities identified in paragraph 145 had selected SEDONA's software as their first customer-relationship management product.

147. SEDONA was in the business of selling software. SEDONA would be required to provide regular maintenance and support for its customers for a minimum of three years. This was part of SEDONA's business plan and was known by the defendants.

148. Each of the prospective business customers described in paragraph 145 expressed concerns regarding SEDONA's financial survivability. These customers voiced their reluctance to commit years to a company's product and make long-term financial commitments when there is no guarantee that the company would be around for the long term to service the product.

149. It is highly likely that profitable business relationships would have materialized from these prospects, if not for the continuous decrease in SEDONA's market cap and share price, and the failure of the Defendants Ladenburg, Rhino and Badian to raise the promised financing, which was part of the manipulation scheme and a direct result of the defendants' manipulative and reckless trading conduct.

150. Through the disclosure of SEDONA's confidential business plans, defendants Rhino, Badian, Ladenburg, Amro, Markham, Aspen, Roseworth, Cambois, Westminster, Frankel and Pershing were aware that SEDONA's prospective business customers were in the process of adopting SEDONA's software for their respective companies and that any adverse news about SEDONA, including adverse impairment of SEDONA's financial strength and survivability, would cause the business customers to "hold off" on purchasing SEDONA's software for their businesses, and/or terminate any existing relationship.

151. The disclosure of SEDONA's material non-public information by Rhino and Badian to Ladenburg, Markham, Aspen, Amro, Roseworth, Cambois, Westminster, Frankel and Pershing was in violation of the express terms of the Confidential Agreement. Furthermore, such disclosure was tortious in that the disclosure was intended to cause defendants Ladenburg, Markham, Aspen, Amro, Roseworth and Cambois to manipulate SEDONA's stock to adversely the stock's price and damage SEDONA reputation and procure breaches of SEDONA's contracts and interfere with prospective business relationships with its customers.

152. The manipulation of SEDONA's stock by Ladenburg, Markham, Aspen, Amro, Roseworth, Cambois, Westminster, Frankel and Pershing was tortious in that the defendants intended to illegally manipulate SEDONA's stock price so that they could benefit from the Convertible Agreement, Purchase Agreement, and various stock purchase agreements to the detriment of SEDONA.

153. Further, SEDONA now believes that the activity described in the SEC Complaint occurred from the inception of its relationship with Ladenburg, with all other preferred and equity shelf purchases, and all the other defendants herein. The SEC Complaint states that between March 1st and March 29th, 2001, "Rhino and Badian directed a series of short sales of SEDONA stock through an account at a U.S. broker-dealer held in the Client's name and controlled by Badian". At the time, the client owned no SEDONA stock. Rhino did not deliver the shares that it was selling short by settlement day and the broker neither bought nor borrowed stock to cover the sales ("Counterfeit Naked Short Sales"). In violation of the Purchase Agreement's prohibition against short selling, Rhino placed sale orders

with the U.S. broker-dealer, who thereafter placed sale orders with another broker-dealer (the "Cooperating Broker Dealer") in SEDONA stock. Each day in March 2001, the Cooperating Broker Dealer executed sales of SEDONA stock in its proprietary account. The Cooperating Broker Dealer often placed these sales through various Electronic Communications Networks (ECNs), which provided anonymity to traders wishing to conceal their identity from the market. At the time of these sales, the Cooperating Broker-Dealer did not possess any shares of the SEDONA stock that it was selling.

154. The Cooperating Broker Dealer covered its short sales through the ECNs by purchasing the shares from Rhino's client's account at the U.S. broker-dealer. The Cooperating Broker-Dealer executed the purchases after the sales had been effected through the ECNs and after the market had closed.

155. The Cooperating Broker-Dealer would purchase the shares at prices slightly below the average prices of sales through the ECNs, thus ensuring itself a profit. As a consequence, these purchases were not printed to the NASDAQ tape and were not included in the reported volume for the day.

156. Since the client did not own SEDONA stock, the sale transactions resulted in short positions in the client's account. However, because the sales were not reported as short sales or the purchases printed on the NASDAQ tape, the short sales were not reported to the market as short sales.

157. Rhino continued thereafter to execute short sales in the client's account, despite repeated failure to deliver shares by settlement date. In sum in March 2001, through Badian's trades, the client sold short 872,796 shares of SEDONA stock.

Of those shares, the client sold short 785,536 prior to its first exercise of its conversion rights under the debenture.

158. These failures to deliver shares triggered clearing failures at the Depository Trust and Clearing Corporation. As a result of the clearing failure, on March 22, 2001, the NASDAQ placed a short restriction on SEDONA stock that required that any future sales of SEDONA would be subject to a mandatory closeout if there were a failure to deliver the securities after ten (10) days.

159. It is important to note that the Ladenburg Investors, including Rhino and its investors, by failing to deliver shares they sold, caused the short restriction referred to in the SEC Complaint. During the manipulation period, short sale restrictions were placed on shares of SEDONA for the following extended periods of time: 8/28/00 through 2/15/01; 3/22/01 through 7/19/01 and 9/11/01 through 5/24/02.

160. After the NASDAQ placed the March 22, 2001 short restriction on SEDONA stock, Rhino sold short SEDONA shares from the account it controlled on behalf of the client at a "Canadian Broker-Dealer." Upon information and belief, SEDONA believes this Canadian broker-dealer is Thomson Kernaghan, an entity previously controlled by Mark Valentine and others. Canadian Broker-Dealers are not members of the NASD and are not subject to its short sale restrictions put in place by the NASDAQ on SEDONA's stock. Beginning on March 30th and continuing through mid-April 2001, Rhino executed short sales through the Canadian account.

161. This activity continued to put downward pressure on SEDONA's stock price. This resulted in Rhino, through two accounts it controlled on behalf of the client, accumulating an open and undelivered short position in SEDONA stock of 1,193,296 shares in just 31 trading days.

162. During this period of manipulation, Amro delivered conversion notices to SEDONA on March 27, 2001, April 5, 2001, April 10, 2001, April 16, 2001, May 1, 2001, May 15, 2001, June 20, 2001, September 25, 2001 and October 15, 2001. Based on these conversion notices, Amro received over 2,700,000 shares of SEDONA stock in furtherance of the manipulation scheme.

DATE	SEDONA PRICE/CLOSE	DOLLAR AMOUNT OF SEDONA SHARES CONVERTED	AMOUNT OF SEDONA SHARES RECEIVED
MARCH 27, 2001	$0.969	$100,000	127,517
APRIL 5, 2001	$0.844	$250,000	395,337
APRIL 10, 2001	$0.92	$500,000	761,342
APRIL 16, 2001	$1.11	$250,000	329,988
MAY 1, 2001	$1.02	$250,000	261,587
MAY 15, 2001	$1.31	$300,000	303,399
JUNE 20, 2001	$0.81	$230,000	320,695
SEPTEMBER 25, 2001	$0.44	$100,000	259,019

163. Upon information and belief, prior to issuing the conversion notices to Sedona, Rhino, Badian and others manipulated SEDONA's stock by directing U.S. broker-dealers to short sell and naked short sell SEDONA's stock.

164. As detailed in the December 2003 U.S. Attorney's Complaint, employees of Rhino directed a U.S. broker-dealer to sell short 74,500 shares of SEDONA on

March 20, 2001 with the full knowledge that Amro did not own any shares of SEDONA stock at the time.

165. The following day Rhino, Badian and others directed the same U.S. broker-dealer to sell short 78,600 shares of SEDONA on March 20, 2001 with the full knowledge that Amro did not own any shares of SEDONA stock at the time.

166. During this March 2001 period, Amro's short sales of SEDONA stock are alleged by the SEC and U.S. Attorney's Office to be manipulative, and in violation of federal securities laws.

167. The March 2001 trading directed by Rhino, Badian and others caused the NASD to place a short restriction on SEDONA's stock commencing on March 22, 2001. By their conduct, Rhino, Badian and others were active participants in the manipulative scheme, along with their client Amro, and are liable for manipulation of SEDONA stock under §10(b) and Rule 10b-5.

H. Some Other Examples of Manipulation by Defendants Herein

168. Although the manipulative activity in March, April and May 2001 (substantiated by the SEC Complaint) is compelling, SEDONA now believes that this activity was begun much earlier by all defendants herein, and that it was occurring on or about December 7, 2000, when SEDONA announced a customer service agreement with IBM at 3:20 p.m. December 7, 2000 was an unremarkable day in the trading of SEDONA shares until 3:22 p.m. Prior to the announcement, 70,714 SEDONA shares were traded in 64 trades. Following the announcement, and with only 38 minutes left in market time, 646,648 SEDONA shares were traded in 474 trades.

169. Multiple sell orders in 50,000 and 100,000 share blocks appeared on the ECNs and ECN Island, Inc., which SEDONA believes has a history of stacking blocks of stock on the ask side of SEDONA's trading, inhibiting upward price momentum. After rising to a price of $1.34, these large block sell orders, along with other manipulation techniques, put downward pressure on the stock, intimidating bonafide purchasers, and creating a false market appearance, thereby lowering the price of SEDONA stock during the balance of the 30 minute trading session. Prior to the announcement, the SEDONA share price was $1.06. 38 minutes and 474 trades later, the price ended the day at $1.06, after moving to a high of $1.34. Prior to the announcement, Frankel, a market maker, made only one trade for the day. Following the announcement, Frankel made 106 sale trades for 138,800 shares with an after-hours cleanup trade of a purchase of 155,000 shares. This trading technique is described in the SEC Complaint.

170. This form of manipulation continued the next trading day when the stock opened and closed at $1.1562 and experienced a low of $0.875 on a volume of 440,800 shares. On this day, Frankel sold 13,500 shares, and purchased none until an after-hours cleanup trade purchase of 12,500 shares. The same pattern is found in a NASDAQ Equity Trade Journal for December 6, 2000, where Frankel sold 20,000 shares, and purchased none until an after-hours cleanup trade of a purchase of 20,000 shares.

171. Other representative examples of positive company announcements resulting in stock declines due to high volume selling activity subsequent to the time period of the SEC investigation (March, 2001) are as follows: a) on April 18, 2001, the

Company announced that year 2000 results would be up 600 percent. The previous day's volume was 287,200. The stock opened at $0.95, reached a high of $1.00, and closed down at $0.88 on a volume of 487,300 shares; b) on April 19, 2001, the Company announced that it had achieved Advanced Business Partner level with IBM, which designation less than 200 companies enjoy, whereupon the stock opened at $0.98, reaching a high of $1.02 and a low of $0.94, only to close at $0.96 on a volume of 452,600 shares; and c) on May 7, 2001, SEDONA announced a contract with Dime Bank of New York, a $27 Billion financial institution. The previous day's volume was 36,300 shares. On this day the stock had an opening price of $1.16, a high of $1.32, and a close at $1.24 on a volume of 372,200 shares. The stock opened the next day at $1.33, traded to a high of $1.38, a low of $1.20, and closed at $1.24 on a volume of 268,400.

172. This same type of pummeling stock trading activity in connection with positive developments at SEDONA was carried out on May 14, 2001, May 16, 2001, and during the months of February and April of 2002. Despite all of these developments, SEDONA's stock behaved in a similar manner each and every time. The stock peaked early, after news, and then declined each time resulting in little or no gain, or a loss. It is the belief of SEDONA that this pattern was due to the defendants herein (in addition to others) manipulating SEDONA stock by illegally selling short, failing to deliver securities of SEDONA, laddering the offer to prevent any upward momentum, illegally selling shares at the bid price as if they were actual "long" shares, not reporting large volumes of illegal stock

trading outside of the marketplace, intimidating bonafide purchasers, engaging in other non-economically feasible transactions, in most cases, selling stock they did not own, entering into massive counterfeit sales and using multiple manipulation techniques to control the free market pricing of SEDONA's stock.

173. The following further illustrates the long-term nature of the manipulation used against SEDONA, commencing in the fall of 2000 through May of 2001 and beyond. During the fall of 2000, SEDONA stock began to experience numerous aftermarket trades. These trades amounted to a large percentage of volume traded each day, and were printed in an after-market trade (most often by Frankel). This same pattern is described in the 2001 trading of SEDONA shares in the SEC Complaint. SEDONA also requested and received Market Maker Volume Report data from NASDAQ, which shows that in October 2000, Frankel accounted for 28.7 percent of all volume in SEDONA, in November 2000, Frankel accounted for 30.4 percent of all volume, and in December 2000, Frankel accounted for 27.9 percent of all volume. It is important to note that Vasinkevich and Badian represented to SEDONA that they had no trading relationship with Frankel. Upon information and belief, SEDONA now believes this representation was and is untrue and that agents for these parties were effecting transactions with Frankel.

174. In late 2001 SEDONA found out that Westminster, at relevant times herein, shared office space in New York City with Rhino and the two funds it manages, Amro and Creon, and that entities affiliated with Sims used the address of Westminster. Based upon information received by SEDONA, SEDONA now knows that Westminster was an active broker-dealer for Amro and Rhino.

Additionally, Westminster was the recipient of warrant certificates on behalf of Roseworth pursuant to Roseworth's August 18, 2000 Stock Purchase Agreement with SEDONA. Upon information and belief, SEDONA alleges that Westminster also acted as a broker-dealer for other defendants herein as well. During the time frame under the SEC Complaint, Westminster traded over 1,800,000 SEDONA shares as a non-reporting market maker.

175. SEDONA also believes that Westminster, with cooperation from its prime broker, Pershing, illegally converted short positions into false long positions, disguised the delivery of conversion shares of SEDONA to co-conspirators to cover illegal short positions, and knowingly participated in manipulating the stock of Sedona up or down. Upon information and belief, Pershing is a direct participant in Westminster's manipulation, and Pershing, among other potential violations of the securities laws, failed in its duty as "gatekeeper to the public markets", to report these large suspicious transactions to market regulators, as required by securities regulations.

176. Upon information and belief, Pershing was a cooperating prime broker with the defendants listed herein, and brokered and cleared their transactions on behalf of the defendants.

177. Upon information and belief, Pershing was aware of the short restrictions placed on SEDONA's stock because they were publicly announced by the NASD on August 28, 2000, March 22, 2001 and September 11, 2001.

178. Any manipulation of SEDONA stock by the defendants Rhino, Badian, Amro, Markham, Aspen, Roseworth and Cambois through defendant Westminster that

took place during any of the short restriction periods, would have involved Pershing, the prime broker for Westminster, who knew or should have known that the defendants were prohibited from engaging in the activity complained of in paragraphs 51 through 177.

179. Pershing was a primary violator in the fraudulent scheme because it had access to confidential information of Westminster, Rhino and their associated offshore shell companies, as well as the power and control to determine whether or not to execute and/or clear securities transactions on behalf of the defendants. The prime broker must approve short sales, legal or illegal, in a customer's account. Illegal short sales cannot occur without the cooperation of the prime broker, who has the control over the credit issued to clients in connection with their margin accounts. Therefore, Pershing must have approved the illegal short sales and washed and matched trading by the Westminster, Amro, Roseworth and Cambois accounts it housed. Pershing executed transactions that it knew or should have known would have resulted in manipulative trading or was used to cover up manipulative trading that already occurred, that would artificially depress the price of SEDONA's stock. Pershing was more than the clearing agent for Westminster. It was a direct participant in the illegal scheme to artificially manipulate and decrease the market price of SEDONA's stock.

180. Instead of simply performing ministerial clearing functions for a contractual fee, Pershing embarked on a concerted course of conduct with Westminster, Rhino and others that had the intended effect to, and actually effected the market for SEDONA's stock, in ways that seriously harmed the price of the stock. The

NSCC Directory for 2001 clearly shows that Pershing cleared trades for Westminster. By brokering Westminster's transactions in SEDONA, Pershing generated substantial profits by perpetrating a pervasive fraud with Rhino, Westminster and the defendants. Pershing either knew or recklessly disregarded the fact that the illegal acts and fraudulent practices described herein would artificially decrease the price of SEDONA's stock. The purpose of the fraud was to reap enormous profits for defendants from the manipulative sales of SEDONA's stock, and a portion of these profits were realized by Pershing.

181. Upon information and belief, Pershing's compliance department monitored the short positions maintained in Westminster's trading accounts and knew, or was reckless in failing to ascertain, that Westminster was engaged in excessive short sales and transactions in thinly-traded securities on behalf of its customers. The reports afforded Pershing the opportunity to immediately identify suspicious transactions in Westminster's or their customers' accounts. It is the prime brokers who have the documents that show short sales of stock that are nothing more than illegal naked short sales and who are in a position to stop this illegal activity, and Pershing failed to stop it. However, because Pershing reaped substantial profits from these transactions, it failed to act and instead continued to broker trades and transactions on behalf of Westminster and its customers so that they could continue to implement their manipulative scheme.

182. Pershing served as the prime broker for Westminster and cleared the manipulative trades in SEDONA stock for Westminster on behalf of Amro, Roseworth and Cambois.

183. Upon information and belief, Pershing was an active participant in the manipulation of SEDONA's stock and facilitated wash sales and matched trades in order to conceal the illegal naked short selling activity of Defendants Rhino, Amro, Cambois and Roseworth. In only April 2001, the 2003 SEC Complaint alleges that there were at least ten specific illegal washed and matched trades that are evidenced in the conversion shares account (Pershing), in the stock of SEDONA.

184. The basis for this belief is the 2003 SEC Complaint which was filed by the SEC in connection with their investigation into manipulation of SEDONA stock and as a result of their extensive examination of only March, April and May 2001 trading activity in SEDONA stock. The SEC only looked at a very small window of time to find the numerous securities violations addressed in its complaint against Rhino, Badian and Amro. SEDONA believes that these patterns of manipulative behavior will be found during the entire time that Rhino's manipulative scheme took place, and Pershing will be a central player throughout the entire time period.

185. In the 2003 SEC Complaint, the SEC states as follows at paragraphs 22-23:

> "22. Rhino deposited the conversion shares that the Client received from Sedona into another account at a second U.S. broker-dealer designated to receive the conversion shares (the "Conversion Shares Account"). By April 16, 2001, Rhino received 1,614,184 shares of Sedona stock on behalf of the Client in the Conversion Shares Account. The majority of these conversion shares were used to close the open and undelivered short position at the first U.S. broker-dealer where the short selling occurred and to significantly reduce the open and undelivered short position at the Canadian broker-dealer.
>
> 23. Instead of delivering the shares directly to broker-dealers where the short sales occurred, Rhino effected wash sales and

> matched orders out of the Conversion Shares Account to the short selling accounts. This created the appearance that the accounts that had short positions were purchasing shares in the open market and not covering short positions with shares obtained through conversion of the debenture. On at least ten occasions during April, 2001, Badian directed transactions involving no change in beneficial ownership of shares of Sedona stock or placed buy orders for shares while simultaneously placing sell orders of substantially the same size and price.

186. A conversion notice that SEDONA received from Rhino on behalf of Amro directed that SEDONA remit the conversion shares to Broker #0443, Account #6E2-048159, Account AMRO International S.A.

187. A review of the National Securities Clearing Corporation Directory identifies Broker 0443 as Pershing.

188. In addition, stock purchase agreements between SEDONA, Roseworth and Cambois directed that the shares of SEDONA purchased by Defendants Roseworth and Cambois be delivered to the same broker, Broker No. 0443, identified as Pershing, which was used by Defendant Rhino on behalf of Defendant Amro.

189. Therefore, upon information and belief, Pershing is the second U.S. broker-dealer identified in the 2003 SEC Complaint, was an active participant in the manipulative scheme, and is liable for manipulation of SEDONA stock under §10(b) and Rule 10b-5.

190. Badian, Rhino, Westminster and Pershing all profited from and directly participated in this fraudulent scheme in order to generate huge fees and trading revenues. Badian, Rhino and Amro were aware of the restrictions in the financing agreements that prohibited Amro from engaging in short sales of SEDONA stock

prior to the conversion of the entire debenture. Nonetheless, Badian, Rhino and Amro directed Westminster to engage in the manipulative short sales and Pershing brokered the transactions. As a direct result of the defendants' conduct, the price of SEDONA's stock was artificially decreased and remained at levels far below that at which it would have traded in the absence of said conduct. The defendants profited at the expense of SEDONA and its shareholders.

H. Fall 2001 Litigation, Releases and February 2002 Agreement

191. In September 2001, SEDONA received a report alleging that manipulation and fraud had been perpetrated against it. After reviewing the report, in October 2001, SEDONA refused to honor any more conversions from the Debenture, and asked the SEC to investigate the allegations expressed in the report. On October 24, 2001, Amro filed suit in the United States Southern District Court of New York against SEDONA seeking to force SEDONA to honor its conversion notices relating to the Debenture. SEDONA immediately responded, before Judge Buchwald, claiming that it was in possession of information that the company's stock may have been manipulated and that subpoena and discovery power was necessary for SEDONA to prove such allegations. Judge Buchwald allowed the argument and granted limited power of subpoena to SEDONA. As SEDONA began to send out the subpoenas, and those named began receiving them, SEDONA was notified that the complainants would vacate the action, and as a result, the discovery process was concluded. Shortly thereafter, a settlement on the Debenture was reached.

192. SEDONA rejected the conversion notice under the Debentures after SEDONA had come into possession of the report which stated that it had been prepared for the Senate Banking and Finance Committee. The report alleged that SEDONA was one of sixty (60) companies whose stock had been manipulated by means of naked short selling. Because the report was very detailed and was reportedly prepared for the Committee, the Directors of SEDONA were very concerned about the allegations. The report claimed to identify approximately twenty (20) companies that had been driven out of business.

193. Subsequently, on more than one occasion, SEDONA representatives inquired of Badian and Rhino regarding the allegations of the report. Badian repeatedly denied that he or any of the investors engaged in the conduct alleged in the report, and repeatedly denied Rhino and Amro's involvement in short selling or in destroying companies. SEDONA granted the Releases in reliance upon the representations by Rhino and Badian on behalf of themselves, and Amro, Roseworth, Cambois, Bachofen, Gassner and Sims, that they were not short selling the stock of SEDONA, that they were not engaged in conduct directed toward the destruction of the company.

194. SEDONA relied upon the multiple representations of Badian and Rhino on behalf of themselves, Amro, Roseworth, Cambois, Bachofen, Gassner and Sims, between the time that they halted the conversions in September 2001 and the time they entered into the Releases, February 2002.

195. The representations of Badian and Rhino were false and made with the intent to deceive SEDONA into granting releases to themselves, Amro, Roseworth,

Cambois, Bachofen, Gassner and Sims. SEDONA justifiably relied on these misrepresentations and omissions in granting the releases to the defendants.

196. The 2003 SEC Complaint, in fact, alleges that Rhino and Badian, on behalf of Amro, engaged in exactly the predatory financial behavior described in the report. Had SEDONA known of the manipulative trading conduct of the defendants, they would not have entered in to the Releases with the defendants.

197. Additionally, the Criminal Complaint quotes specifically from an October 25, 2001 e-mail from A. Badian to Defendant Badian, where A. Badian acknowledges that they knew that their trading conduct in SEDONA stock was wrong, that the elaborate structure that they established for protection was for nothing, and they cannot allow this evidence to get into court due to the "endless trading testimony".

198. Further, Amro in obtaining the release was actually compensated more than the remaining outstanding amount on the promissory note, and, as argued herein, SEDONA will return whatever compensation the Court rules Amro received.

199. Badian, Sims, Bachofen, Gassner, Roseworth, Cambois, Amro and Rhino (the "Released Parties") each obtained a release from SEDONA, and in exchange for such releases, Amro received a payout of the Debenture at a premium. It is SEDONA's belief that the Releases in question were not part of and do not involve or preclude the claims set forth herein, as such releases did not refer to the manipulative practices of the defendants set forth herein, nor did they intend or desire to dispose of any of the matters set forth herein. Additionally, it is SEDONA's belief that the releases were obtained by fraud and duress, and are

void and unenforceable, as the Released Parties continued to manipulate SEDONA's stock, while the releases were negotiated and after they were executed, intentionally concealing the manipulation from SEDONA. The SEC Complaint alleges that certain of the defendants placed the manipulative orders through ECNs and also engaged in wash sales and matched orders to conceal their involvement in the scheme. The defendants also took advantage of SEDONA, and threatened litigation and a default action, at a time when SEDONA's finances were very limited due to the fraudulent misrepresentations and market manipulation of the defendants. In an e-mail from Badian to Marco Emrich, then the President and Chief Executive Officer of SEDONA, dated January 4, 2002, Badian states his client's intention to collect on the Debenture if unpaid and further threatens, "as I am sure you are aware, a public company that defaults on any debt security loses its eligibility for S-3 registrations and must file the more cumbersome and expensive SB-2 or S-1 if it wishes to register shares. There are of course other consequences." Faced with such threats and no knowledge of the defendants' manipulative behavior due to their deceptive practices, SEDONA felt that it had no other option but to settle the outstanding litigation. Accordingly, the releases were also the result of the Released Parties' coercion and duress upon SEDONA.

200. The Released Parties induced SEDONA to enter into the releases based upon the false representations that they were not involved in any manipulation of SEDONA's stock and that they had not engaged in any short selling of SEDONA common stock.

201. Furthermore, the Released Parties induced SEDONA to enter into the releases based upon the false representation that they were taking a discount payment as consideration for the releases. In reality, the Released Parties did not accept a discount, and were made whole.

202. At all times, the Released Parties knew that the above representations were untrue, but induced SEDONA into executing the releases through such false representations.

203. The Released Parties continued to manipulate SEDONA's stock, before, during and after the releases were executed, intentionally concealing the manipulation from SEDONA and the regulatory authorities.

204. The Released Parties were proficient at concealing their continual short-selling and manipulative activities at the time of and after entry of the releases with SEDONA.

205. Amro fraudulently induced Sedona to believe that it exchanged the releases for a discount, when in fact, through the manipulation, Amro was made whole and actually profited from the transaction.

206. In furtherance of the fraudulent concealment of their manipulative trading activities, the defendants also secured releases for Roseworth and Cambois, who did not own any convertible securities but only purchased common stock of SEDONA.

207. On February 14, 2002, SEDONA and Amro entered into an agreement to resolve all matters related to the Convertible Debentures. Bachofen executed the Agreement on behalf of Amro, in his capacity as Director.

208. Furthermore, the terms of the February 14, 2002 agreement required SEDONA to make full payment to Amro for the outstanding balance of the loan.

209. On January 9, 2003, SEDONA was de-listed from the NASDAQ SmallCap Market. This was a very negative event for SEDONA, which also had a positive effect on the defendants herein, as market participants were now governed by a less-regulated atmosphere in which to conduct their manipulative activity. SEDONA believes that the de-listing by NASDAQ directly resulted from the illegal price and market capitalization manipulation of its stock caused by the defendants and their affiliates.

210. On various occasions in October through December 2001, SEDONA requested that the SEC formally investigate trading activities in the stock of SEDONA. This request was honored and an informal investigation over the next five months resulted in the SEC issuing a June 5, 2002 formal Order Directing Private Investigation and Designating Officers to Take Testimony, followed by the SEC ultimately filing its own complaint based upon their finding of extensive stock manipulation from Rhino and Badian.

211. In the SEC cause of action, the SEC and Rhino and Badian reached a settlement in February 2003. Upon information and belief, there are other individuals and companies the SEC is presently investigating (all referenced in general in the SEC Complaint), against whom the SEC may file complaints similar to the one it filed against Rhino and Badian. For example, James Coffman, assistant director of enforcement at the SEC, was quoted in a *Financial Times* article entitled "SEC widens probe into 'death-spiral' schemes" by John Labate dated March 9, 2003,

in reference to the Rhino/Badian SEC matter, as saying: "[t]hese are the kind of violations that often occur with the assistance of other market professionals. Where that's the case, the commission intends to pursue matters and bring enforcement actions as appropriate."

212. SEDONA believes that full discovery of its trading records will reveal that SEDONA's publicly traded securities are still being controlled and manipulated today in an effort to protect a previously established and illegally counterfeited stock position in SEDONA. In January, February and March of 2003, two market makers accounted for 57% of the trading volume in SEDONA's stock. February 27, 2003, the very day the SEC announced its action and manipulation claims against Rhino and Badian in the securities of SEDONA, buying pressure came into the stock of SEDONA with 561,300 shares trading, which was over 10 times SEDONA's prior 20-day average trading volume of 52,245 shares. Similar to the trading pattern previously described in connection with SEDONA's positive news announcements, downward pressure on the price of the stock was asserted, exemplified as SEDONA opened at .19 cents, traded up to .29 cents, only to close at .23 cents, which SEDONA alleges was the result of manipulation of the defendants herein along with others. 30 days following the SEC announcement of February 27th, SEDONA traded 1,377,500 shares to close on March 28, 2003 at SEDONA's February 27th opening price of .19 cents.

213. Due to all of the above, it has been virtually impossible for SEDONA to obtain additional financing or an investment of any type, except on a limited basis through existing shareholders. SEDONA believes that this inability to obtain

financing or legitimate investment on behalf of SEDONA is a direct result of the defendants' plans and actions. With additional investment and financing, SEDONA believes that it could have substantially increased its business with its key customers described above as well as with similar customers who have expressed concern about SEDONA's continued viability due to the manipulated depression of SEDONA's stock price.

214. The manipulation caused SEDONA to experience a decrease in market capitalization of several hundred millions of dollars and prohibited SEDONA from pursuing alternative means of raising capital to implement its business plans and objectives, and caused SEDONA to terminate employees that were critical to its sales and marketing strategies.

III. CLAIMS FOR RELIEF

First Claim for Relief
(Violation of Section 10(b) and Rule 10b-5 Against Ladenburg, Rhino, Markham, Aspen, Amro, Roseworth, Cambois, Badian, Tohn, Boris, Vasinkevich and Smith)

215. Plaintiff repeats and realleges the allegations in paragraphs 1 through 214 as if fully set forth herein.

216. Defendant Ladenburg, by and through its principals, officers, directors, or agents, including, without limitation, Badian, Tohn, Boris, Vasinkevich and Smith made the misrepresentations and omissions alleged in paragraphs 22 through 214 hereof.

217. Defendants Badian, Tohn, Boris, Vasinkevich and Smith personally knew at the time of these misrepresentations and omissions that the same were untrue. They

also reconfirmed individually the representations they had made as agents of Ladenburg in paragraphs 65 through 81, 106, and 109 through 125 hereof.

218. The misrepresentations and omissions identified above were made in connection with the sale of securities by SEDONA to Ladenburg and its clients, the Ladenburg Investors, and in so doing, Ladenburg employed the means and instrumentalities of interstate commerce and communication.

219. Defendants Ladenburg, Rhino, Markham, Aspen, Cuttyhunk, Sarlo Trust, Amro, Roseworth, Cambois, Badian, Tohn, Boris, Vasinkevich and Smith acted with *scienter* in making the foregoing misrepresentations and omissions. As alleged above, the structure of the financing agreement gave the defendants both the motive and the opportunity to defraud SEDONA.

220. All the above named defendants intended that SEDONA rely, and SEDONA did reasonably rely, on each of the defendants' misrepresentations and omissions, and was injured thereby. The misrepresentations and omissions caused SEDONA to sell securities to Ladenburg and those investors placed by Ladenburg and, in doing so, dramatically and adversely affected the price and terms of those sales.

221. Defendants Ladenburg, Rhino, Markham, Aspen, Cuttyhunk, Sarlo Trust, Amro, Roseworth, Cambois, Badian, Tohn, Boris, Vasinkevich and Smith, in connection with the purchase or sale of securities and in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder:

a) Employed a device, scheme, or artifice to defraud SEDONA;
b) Made untrue statements of material fact, or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and

c) Engaged in acts, practices, or courses of business that operated or would operate as a fraud or deceit upon SEDONA, in connection with the purchase or sale of a security.

All of the above acts were in violation of law and Defendants Ladenburg, Rhino, Markham, Aspen, Cuttyhunk, Sarlo Trust, Amro, Roseworth, Cambois, Badian, Tohn, Boris, Vasinkevich and Smith are liable to SEDONA for damages caused by the violations.

Second Claim for Relief - Violation of Section 10(b) and Rule 10b-5 (Manipulation Claim Against All Defendants)

222. SEDONA repeats and realleges paragraphs 1 through 221 as if fully set forth herein.

223. All defendants participated in a scheme to defraud SEDONA by manipulating the price of SEDONA stock. The scheme was carried out by use of the mails and wires in interstate commerce.

224. As is exemplified in paragraphs 22 through 214 hereof, starting in February 2000 through May 2001 and beyond, all defendants including without limitation, Ladenburg, Markham, Rhino, Aspen, Cuttyhunk, Sarlo Trust, Amro, Roseworth, Cambois, Westminster and Pershing, and each of their affiliates and agents, manipulated the price of SEDONA's stock by causing large volumes of stock to be sold with the intent to artificially depress the price of SEDONA stock. This methodology is also set forth in detail in the SEC Complaint, described in Paragraphs 26 through 48 hereof. By dumping a large volume of stock on the market, and by using pre-arranged sales, engaging in non-economically feasible trades and washed sales, failing to obtain the best price in covering short positions, painting the tape, creating false buy-ins, using devices to intimidate bonafide purchasers, using after hours trades, using trades unreported to the

NASD, and employing Counterfeit Naked Short Sales, as is explained in paragraphs 70 through 214 hereof, the defendants were able to inject false information into the marketplace concerning trading in and sales of SEDONA stock. That false information dramatically and artificially lowered the price of SEDONA stock from a peak of $10.25 down to $0.19, as set forth in paragraph 104 hereof.

225. All defendants acted with scienter, as each defendant had the motive to engage in this scheme, because of the structure of the financing agreement, and the opportunity to engage in this scheme, because of the stock issued by SEDONA. Defendants' scienter is further confirmed by their involvement in similar schemes in the past, as alleged in paragraphs 22 through 61 and 124 through 161 hereof.

226. Plaintiff was damaged by the Defendants' manipulation, because it bought or sold stock during the time when the stock price was artificially depressed by that manipulation, in reasonable reliance on the market price for SEDONA stock.

Third Claim for Relief - Tortious Interference with Contract and Tortious Interference with Business Relationship (Against All Defendants)

227. SEDONA repeats and realleges the allegations of paragraphs 1 through 226 as if fully set forth herein.

228. SEDONA had numerous contracts and business relationships with business customers and investors during the relevant times herein, and it had reasonable expectations that those contracts and relationships would continue and bear fruit.

229. All defendants herein drove down the price of the stock of SEDONA to such a level that it substantially precluded SEDONA from maximizing its ability to

profit from certain contracts, including those agreements with existing customer, Sanchez Computer Associates, and potential customers, implementing various parts of its business plan, completing transactions with third parties or obtaining additional financing.

230. Further, defendants herein, with knowledge and forethought, drove down the price of SEDONA's stock so much that it precluded SEDONA from obtaining additional financing for which SEDONA had signed agreements, and on which SEDONA could have closed, but for the actions of defendants herein.

231. Defendants herein knew or should have known that their actions described above would proximately cause SEDONA to be unable to complete such business or financing transactions.

232. As a direct and proximate result of the defendants' actions, SEDONA has suffered harm and continues to suffer harm.

233. The defendants had knowledge of and were aware of SEDONA's contracts and business relationships with its business customers and investors.

234. The defendants intentionally and unjustifiably interfered with those contracts and business relationships by manipulating SEDONA's stock and causing the cancellation of contracts and the termination of SEDONA's business relationships.

235. Further, such actions of defendants interfered with the contracts and business relationships of SEDONA with all entities who SEDONA intended would become business customers, transaction targets and/or financiers, and have jeopardized

those relationships and contracts and caused SEDONA to lose credibility in those relationships.

236. By virtue of their conduct described herein, the defendants tortiously interfered with SEDONA's relationships, contracts and business opportunities with its customers and business investors.

237. SEDONA is entitled to damages for harm resulting from the defendants' tortious interference with SEDONA's contracts and business relationships.

Fourth Claim for Relief: Violation of Title 70 Chapter 1.5 Pennsylvania Securities Act of 1972 Section 1-401 Sales and Purchases and Section 1-501 Civil Liabilities (hereinafter the "Pennsylvania Act") (Against All Defendants)

238. SEDONA repeats and realleges paragraphs 1 through 237 as if fully set forth herein.

239. Defendants, directly or indirectly, have used or employed, in connection with the purchase or sale of SEDONA's securities, manipulative or deceptive devices or contrivances, and have made untrue statements of material fact and have omitted to state material facts necessary to make statements made, in light of the circumstances in which they were made, not misleading, and have engaged in acts and practices that operate as a fraud and a deceit, in contravention of Pennsylvania law. Without limitation, defendants have, as alleged above:

a) Employed a device, scheme, or artifice to defraud;
b) Made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, and
c) Engaged in acts, practices, and courses of business that operated or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

240. Defendants' misrepresentations and omissions, as detailed above, were material.

241. SEDONA reasonably relied on those misrepresentations and omissions.

242. SEDONA has been injured by the defendants' conduct.

243. As a result of these violations, defendants, and each of them, are liable to SEDONA pursuant to the Pennsylvania Act.

Fifth Claim for Relief: Common Law Fraud and Deceit (Against Defendants Ladenburg, Rhino, Markham, Aspen, Amro, Roseworth, Cambois, Badian, Tohn, Boris, Vasinkevich and Smith)

244. SEDONA repeats and realleges the allegations of paragraphs 1 through 243 as if fully set forth herein.

245. As alleged above, defendants Ladenburg, Rhino, Markham, Aspen, Amro, Roseworth, Cambois, Badian, Tohn, Boris, Vasinkevich and Smith made the misrepresentations of material facts and omissions of material facts, knowing that such representations were false and knowing that SEDONA was unaware of the falsity, with the intent that SEDONA rely on such false representations.

246. As alleged above, SEDONA did reasonably rely, to its detriment on such false representations and material omissions. Plaintiff seeks actual and punitive damages therefor.

Sixth Claim for Relief: Civil Conspiracy to Commit Fraud (Against All Defendants)

247. SEDONA repeats and realleges the allegations of paragraphs 1 through 246 as if fully set forth herein.

248. The defendants conspired to commit the tort of fraud against SEDONA. This conspiracy claim is predicated on the tort of fraud, in that the object of the conspiracy was to defraud SEDONA as alleged above, and, by doing so, to

acquire the initial shares, warrants, cash, and other consideration, including additional shares, to profit illegally therefrom and/or to gain eventual control or destruction of SEDONA. The conspiracy is evidenced by, among other things, the many connections and interrelationships between the defendants herein and the pattern of "death spiral" financing schemes caused by the defendants and their affiliates, set forth in paragraphs 22 through 214 hereof. The unlawful acts as alleged above were committed in furtherance of that conspiracy, predicated on the tort of fraud, and caused damage to SEDONA.

Seventh Claim for Relief: Breach of Contract
(Against Ladenburg, Markham, Aspen, Amro, Roseworth, Cambois and Boris)

249. SEDONA repeats and realleges paragraphs 1 through 248 as if fully set forth herein.

250. Ladenburg, the Ladenburg Investors, Roseworth and Cambois promised in writing, in transactional agreements, to fund up to $50 Million, as is evidenced by the March 8, 2000 Ladenburg Letter. The defendants herein failed to fully fund this contract. SEDONA received only a small portion of these monies so committed, less fees and expenses dictated by defendants, leaving a significant difference between funds so committed by the Ladenburg and Ladenburg Investors and the funds actually "invested."

251. Further, Ladenburg, the Ladenburg Investors, Roseworth and Cambois entered into oral and written agreements with SEDONA as stated above and breached most of such agreements, including but not limited to the following breaches:

a) Selling more stock of SEDONA than agreed;
b) Shorting stock of SEDONA;

c) Not being an accredited investor;
d) Not investing for the long term;
e) Failing to obtain the best price for SEDONA stock;
f) Failing to fund what they committed to fund; and
g) Other acts that were not in the best interest of SEDONA hereinbefore mentioned, in violation of state and federal law, rules, and regulations of the Securities and Exchange Commission, American Stock Exchange, National Association of Security Dealers (NASD), including but not limited to, Rule 10(a) of the Exchange Act, and Rules 3350, 3370 and 3310 of the NASD.

252. Ladenburg breached the January 24, 2000 Ladenburg Letter by failing to procure the $50 Million funding.

253. Markham, Aspen and Amro breached the Convertible Preferred Stock and Warrants Purchase Agreement by engaging in short-selling of SEDONA stock and failing to ensure that their trading activities complied with applicable state and federal laws.

254. Rhino and Badian breached the Confidential Agreement by disclosing confidential and proprietary information about SEDONA to Ladenburg, Markham, Aspen, Amro, Roseworth and Cambois among others.

255. Amro breached the Convertible Debentures and Warrant Purchase Agreement by engaging in manipulative short sales in SEDONA stock.

256. SEDONA fully performed under each and every agreement entered into with the defendants, including the January 24, 2000 Ladenburg Letter, Convertible Preferred Stock and Warrants Purchase Agreement, the Confidential Agreement, and the Convertible Debentures and Warrant Purchase Agreement.

257. SEDONA has been damaged in the amount of at least $160 Million by defendants' breach of contract, in addition to attorney's fees and interest pursuant to the contract transactional documents.

Eighth Claim for Relief: Control Person Liability under Section 20 of the Exchange Act (Against Defendants Bachofen, Rhino, Badian, Hassan, Inder Rieden, Vasinkevich, Boris, Tohn and Smith)

258. SEDONA repeats and realleges the allegations in paragraphs 1 through 257 as if fully set forth herein.

259. As alleged above, Ladenburg, Rhino, Markham, Aspen, Amro, Roseworth, Cambois, Badian, Tohn, Boris, Vasinkevich and Smith have violated Section 10(b) of the Exchange Act and Rule 10b-5.

260. Upon information and belief, Defendants Bachofen, Rhino and Badian have acted as controlling persons of Amro within the meaning of § 20 of the Exchange Act, as described in paragraph 91 hereof, and exercised control over the corporate operations of Amro in general through each of their power to direct or cause the direction of the management and policies of Amro. Specifically, Bachofen, Rhino and Badian had the power and authority to cause Amro to engage in the wrongful conduct complained of herein, including without limitation paragraphs 22-24, 91-97, 131-145, 153–167 and 215-257 by virtue of the following control relationships: (i) Bachofen was a director signing on behalf of Amro in the transactions complained of herein; (ii) Rhino is listed as the fund manager of Amro in publicly-filed documents with the SEC; and (iv) Badian is a signatory on behalf of Rhino, and thus controls Amro through Rhino. Accordingly, each of Bachofen, Rhino and Badian was in a position of power and authority to cause Amro to engage in the wrongful acts complained of herein and did cause Amro to engage in such acts.

261. Upon information and belief, Defendant Hassan has acted as a controlling person of Markham within the meaning of § 20 of the Exchange Act, as described in

paragraph 83-85 hereof, and exercised control over the corporate operations of Markham in general through his power to direct or cause the direction of the management and policies of Markham. Specifically, Hassan had the power and authority to cause Markham to engage in the wrongful conduct complained of herein, including without limitation paragraphs 22-24, 57, 83-85, 140-152 and 215-257 by virtue of his position as director signing on behalf of Markham and did cause Markham to engage in such acts.

262. Upon information and belief, Defendant Inder Rieden has acted as a controlling person of Aspen within the meaning of § 20 of the Exchange Act, as described in paragraph 86 hereof, and exercised control over the corporate operations of Aspen in general through his power to direct or cause the direction of the management and policies of Aspen. Specifically, Inder Rieden had the power and authority to cause Aspen to engage in the wrongful conduct complained of herein, including without limitation paragraphs 22-61, 79-114, 153–167 and 215-257 by virtue of his position as director signing on behalf of Aspen and did cause Aspen to engage in such acts.

263. Upon information and belief, Defendants Vasinkevich, Boris, Tohn and Smith have acted as controlling persons of Ladenburg within the meaning of § 20 of the Exchange Act, as described in paragraph 67 hereof, and exercised control over the corporate operations of Ladenburg through each of their power to direct or cause the direction of the management and policies of Ladenburg. Specifically, Vasinkevich, Boris, Tohn and Smith had the power and authority to cause Ladenburg to engage in the wrongful conduct complained of herein, including

without limitation paragraphs 22–257 by virtue of the following control relationships: Vasinkevich, Boris and Smith during all relevant times held executive officer positions at Ladenburg and, along with Tohn, held signatory power on behalf of Ladenburg, thus controlling the corporate action of Ladenburg. Accordingly, each of Vasinkevich, Boris, Tohn and Smith had the power and authority to cause Ladenburg to engage in the wrongful conduct complained of herein and did cause Ladenburg to engage in such acts.

264. Upon information and belief, Defendant Badian acted as a controlling person of Rhino within the meaning of § 20 of the Exchange Act, as described in paragraph 75 hereof, and exercised control over the corporate operations of Rhino in general though his power to direct or cause the direction of the management and policies of Rhino. Specifically, Badian had the power and authority to cause Rhino to engage in the wrongful conduct complained of herein, including without limitation paragraphs 22-61, 79-114, 139–142, 153–167 and 215-257 by virtue of his position as President with signatory power and receiving transactional documents on behalf of Rhino and did cause Rhino to engage in such acts.

265. By reason of the wrongful conduct alleged herein, pursuant to § 20(a) of the Exchange Act, (i) Bachofen, Rhino and Badian are liable for the conduct of Amro; (ii) Hassan is liable for the conduct of Markham; (iii) Inder Rieden is liable for the conduct of Aspen; (iv) Vasinkevich, Boris, Tohn and Smith are liable for the conduct of Ladenburg; and (v) Badian is liable for the conduct of Rhino. As a direct and proximate result of this wrongful conduct of the individuals and entities

set forth above, SEDONA suffered damages in an amount to be proven at trial as alleged above.

266. Accordingly, pursuant to § 20(a) of the Exchange Act, each of the control persons set forth above shall be liable to SEDONA jointly and severally with and to the same extent as the persons so controlled for the actions and damages set forth in paragraphs 22 through 257 hereof, as if the actions of the controlled person were the actions of the controlling person.

Ninth Claim for Relief: Rescission of Releases
(Against Amro, Roseworth, Cambois, Rhino, Badian, and Bachofen)

267. SEDONA repeats and realleges the allegations in paragraphs 1 through 266 as if fully set forth herein.

268. On or about February 14, 2002, SEDONA and Amro entered into a Settlement Agreement.

269. Under the Settlement Agreement, Amro received from SEDONA, among other things:

a) the right to convert $400,000 of indebtedness due Amro from SEDONA into shares of common stock of SEDONA valued at 85% of the daily volume weighted average of SEDONA stock for the five trading days immediately preceding the closing of the Settlement Agreement;
b) a new promissory note of SEDONA in the principal amount of $348,652;
c) a cash payment of $50,000;
d) an agreement from SEDONA reaffirming its obligations under certain warrants;
e) the execution and delivery by SEDONA of a "Release" to Amro, Rhino and Badian.

270. Under the Settlement Agreement SEDONA received, among other things:

a) Extension of the maturity of a debenture due January 15, 2002 with an accrual interest and principal balance of $743,520.00;

b) Withdrawal by Amro of pending notices to convert amounts due under the debenture to common shares;

c) the Agreement of Amro not to sell short and to limit its sales of SEDONA stock to a cap determined by a specific formula;

271. The Settlement Agreement does not specify the consideration received by SEDONA for the execution and delivery of the Releases, however it does state that the Releases were granted by SEDONA to the Released Parties for good and valuable consideration received from the Released Parties by SEDONA.

272. Similarly, the Releases do not identify the value of the consideration received by SEDONA, but merely state that SEDONA "in consideration of good and valuable consideration received from" Amro, its officers, directors, affiliates, employees, agents and advisors, including Rhino, as well as the officers, directors and employees of such affiliates and advisors.

273. In actuality, SEDONA did not receive any consideration or any benefit of the bargain for which it contracted, however the Released Parties received substantial sums of money from SEDONA.

274. SEDONA intended service of the Summons and Complaint in May 2003 to serve as notice of rescission of the Releases and hereby offers to restore all consideration furnished by the Released Parties to SEDONA under the Releases.

275. SEDONA hereby offers, upon trial of this action, to restore the consideration allegedly received by it in exchange for rescission of the Releases, upon determination by this Court of the value of the consideration.

276. SEDONA seeks rescission of the Releases as a result of the Released Parties' failure to provide any consideration for the Releases.

277. SEDONA seeks rescission of the Releases as a result of the Released Parties fraudulent conduct.

278. Upon rescission of the Releases, the Court should grant SEDONA the right to pursue its claims of misrepresentation, manipulation, tortious interference with contract and prospective business, Pennsylvania securities fraud, conspiracy, breach of contract and control person claims against the Released Parties.

Tenth Claim for Relief: Fraudulent Inducement in Procurement of Releases (Against Amro, Roseworth, Cambois, Rhino, Badian and Bachofen)

279. SEDONA repeats and realleges the allegations in paragraphs 1 through 278 as if fully set forth herein.

280. SEDONA executed and delivered to and Defendants Amro, Rhino, Roseworth and Cambois, releases dated February 14, 2002.

281. The Released Parties intentionally misrepresented facts within their knowledge regarding the manipulation of SEDONA's stock, upon which SEDONA relied in executing the Releases.

282. SEDONA reasonably relief on the false representations of the Released Parties, when it entered into the releases with these defendants.

283. The Released Parties knew that their representations were false at the time that they entered into the Releases.

284. SEDONA owned and possessed valid claims against the Released Parties prior to entering into the Releases.

285. SEDONA was fraudulently induced to release its claims against the Released Parties for the alleged consideration referenced in the Releases, and relying upon their fraudulent representations, entered into the Releases.

286. The Released Parties' motive and intent was to induce, coerce and deceive SEDONA into releasing its claims against them.

287. The Released Parties' intended for SEDONA to refrain from enforcing its claims against them. Each of the Released Parties acted with knowledge of its fraudulent conduct.

288. SEDONA would have realized more than the alleged consideration exchanged for the Releases had there been no fraud and had it not released its claims against the Released Parties.

289. Amro, Rhino and Badian fraudulently induced SEDONA into believing that it was exchanging the Releases for a discount, when in fact, as a result of its manipulation Amro was made whole, and in fact made a significant profit from the Releases.

290. The Released Parties fraudulently induced SEDONA to enter into the releases with the knowledge that they were actively perpetrating the manipulation of Sedona's stock.

291. SEDONA was harmed because it released the Released Parties for a lesser sum than it would have received if not for the fraud.

292. SEDONA is entitled to judgment against the Released Parties in amount deemed by this Court to be just and fair.

Jury Demand

SEDONA asserts its right under the Seventh Amendment of the United States Constitution and demands a trial by jury on all issues, in accordance with Federal Rule of Civil Procedure 38.

WHEREFORE, SEDONA prays that upon the trial of this action SEDONA recover from each defendant, jointly and severally, as follows:

a) Rescission of all agreements between the parties;

b) Damages in the amount of at least Five Hundred Million Dollars ($500,000,000), representing the decline in SEDONA's market value caused by the conduct of the defendants and any subsequent decline in SEDONA's market value as a result of the defendants' wrongful conduct;

c) Damages in the amount of at least One Hundred Sixty Million Dollars ($160,000,000), representing the contractual damage for the failure of Ladenburg and the defendants to honor their contracts with SEDONA;

d) Recovery of SEDONA's costs incurred in legal, accounting, and other fees occasioned by the filing of the S-3 registration statements and other related filings required by the defendants and SEDONA being delisted by the NASDAQ Exchange;

e) Injunctive relief enjoining the defendants from engaging in transactions in SEDONA's securities and from engaging in short sales of SEDONA's stock pending final resolution of this action;

f) An accounting for all profits made by the defendants in transactions in securities issued by SEDONA, and disgorgement and restitution of those profits;

g) Recovery of all of SEDONA's attorney's fees, expert witness fees, and costs and disbursements of suit;

h) Pre-judgment and post-judgment interest at the maximum rate provided by law;

i) Exemplary damages from each of the defendants, jointly and severally, in the amount of Two Billion Dollars ($2,000,000,000.);

j) Damages in an amount to be determined representing the loss incurred by SEDONA for tortious interference with contracts or business relationships of SEDONA;

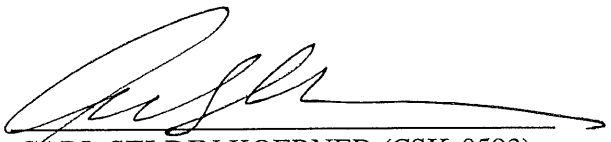
k) Damages in an amount to be determined representing the loss incurred by SEDONA for breach of fiduciary duty and negligence of Ladenburg; and

l) Such other and further relief to which Plaintiffs are deemed entitled by the Court and/or the jury.

DATED: September 18, 2006
New York. New York

Respectfully submitted,

KOERNER SILBERBERG, LLP

By: 

CARL SELDIN KOERNER (CSK-0593)
Attorneys for SEDONA Corporation
112 Madison Avenue, 3rd Floor
New York, New York 10016

Holly Pappas Griffin

From: Sedgwick Jeanite [Sedgwick.Jeanite@kswny.com]
Sent: Wednesday, September 20, 2006 10:15 AM
To: marco.emrich@sedonacorp.com; vdi@veydevelopment.com; s.ficyk@adelphia.net
Cc: jwc@csj-law.com; gmj@csj-law.com; Carl Koerner; Maryann Peronti; Fran Zujkowski
Subject: Sedona v. Ladenburg, 1485-001

Hello All,

Attached please find a copy of the Second Amended Complaint in the *Sedona v. Ladenburg et al.* action that was filed with the U.S. District Court in the Southern District of New York on September 18, 2006.

Feel free to contact me with any questions.

Sedgwick M. Jeanite, Esq.

Koerner Silberberg, LLP
112 Madison Avenue, 3rd Floor
New York, New York 10016
Tel - (212) 689-4400 ext. 307
Fax - (212) 689-3077