SECURE ALLIANCE HOLDINGS CORP
Form PRER14A
April 02, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. 1)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule14a-6(e)(2))

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Under Rule 14a-12

Secure Alliance Holdings Corporation
(Name of Registrant as Specified in Its Charter)

(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Title of each class of securities to which transaction applies: Common Stock, par value $.01 per share, of Secure Alliance Holdings Corporation

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(2) Aggregate number of securities to which transaction applies: 38,899,018 shares of common stock

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined by multiplying 38,899,018 shares of common stock to be transferred under the Merger Agreement by $0.65, the market price of each share as of February 29, 2008, divided by 50 and further divided by 100.

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(4) Proposed maximum aggregate value of transaction: $25,284,361

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(5) Total fee paid: $5,056.98

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x Fee paid previously with preliminary materials:

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

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(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

Secure Alliance Holdings Corporation
5700 Northwest Central Dr, Ste 350
Houston, Texas 77092

__________, 2008

To our stockholders:

You are cordially invited to attend a special meeting of stockholders of Secure Alliance Holdings Corporation to be held at ____________________ on ___________ __, 2008 at __:__ _.m., local time. At this meeting, we intend to seek stockholder approval of the following:

1. The Agreement and Plan of Merger dated as of December 6, 2007 by and among Sequoia Media Group, LC, Secure Alliance Holdings Corporation and SMG Utah, LC, as amended by that certain Amendment No. 1 dated as of March 31, 2008 (collectively, the “Merger Agreement”);

2. An amendment to our certificate of incorporation to effect a 1-for-2 reverse stock split of our common stock, par value $.01 per share, such that holders of our common stock will receive one share for each two shares they own;

3. An amendment to our certificate of incorporation to increase the number of authorized shares of our common stock from 100,000,000 to 250,000,000 and to authorize a class of preferred stock consisting of 50,000,000 shares of $.01 par value preferred stock;

4. An amendment to our certificate of incorporation to change our name from “Secure Alliance Holdings Corporation” to “aVinci Media Corporation”;

5. Our 2008 Stock Incentive Plan;

6. To approve adjournments of the special meeting if deemed necessary to facilitate the approval of the above proposals, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting, to establish a quorum or to approve the above proposals; and

7. To transact such other business as may properly be brought before the special meeting or any adjournment or postponement thereof.

Our board of directors has unanimously approved all of the proposals described in the proxy statement and is recommending that stockholders also approve them.

Please review in detail the attached proxy statement for a more complete statement regarding the proposal to approve the Merger Agreement (proposal 1 in the proxy statement), including a description of the Merger Agreement, the background of the decision to enter into the Merger Agreement and the reasons that our board of directors decided to recommend that you approve the Merger Agreement.

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Your vote is very important to us, regardless of the number of shares you own. Whether or not you plan to attend the special meeting, please vote as soon as possible to make sure your shares are represented at the meeting.

On behalf of our board of directors, I thank you for your support and urge you to vote “FOR” each of the proposals described in the proxy statement.

By Order of the Board of Directors,

Stephen P . Griggs
President

Houston, Texas, __________ __, 2008

The notice and proxy statement are first being mailed to our stockholders on or about __________ __, 2008.

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Secure Alliance Holding Corporation
5700 Northwest Central Dr, Ste 350
Houston, Texas 77092

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON ___________ __, 2008

To our stockholders:

A special meeting of stockholders of Secure Alliance Holdings Corporation, a Delaware corporation (the "Company" or "Secure Alliance") will be held at ____________________ on ___________ __, 2008 at __:__ _.m., local time (the "Special Meeting"). At this meeting you will be asked:

1. To consider and to vote on a proposal to approve the Agreement and Plan of Merger dated as of December 6, 2007, by and among Sequoia Media Group, LC, a Utah limited liability company ("Sequoia"), Secure Alliance and SMG Utah, LC, a Utah limited liability company and wholly owned subsidiary of Secure Alliance ("Merger Sub"), as amended by that certain Amendment No. 1 dated as of March 31, 2008 (collectively, the "Merger Agreement"), each of which are attached as Annex A to the proxy statement, pursuant to which Merger Sub will merge with and into Sequoia with Sequoia becoming the surviving entity and our wholly owned subsidiary (the "Merger");

2. To consider and to vote on a proposal to file a certificate of amendment to our certificate of incorporation (the "Certificate of Incorporation") to effect a 1-for-2 reverse stock split (the "Reverse Stock Split") of our common stock, par value $.01 per share (the "Common Stock"), such that holders of our Common Stock will receive one share for each two shares they own (the "Reverse Stock-Split Proposal");

3. To consider and to vote on a proposal to file a certificate of amendment to our Certificate of Incorporation to increase the number of authorized shares of our Common Stock from 100,000,000 to 250,000,000 and to authorize a class of preferred stock consisting of 50,000,000 shares of $.01 par value preferred stock (the "Capitalization Proposal");

4. To consider and to vote on a proposal to file a certificate of amendment to our Certificate of Incorporation to change our name (the "Name Change") from "Secure Alliance Holdings Corporation" to "aVinci Media Corporation" (the "Name Change Proposal" and, together with the Reverse Stock Split Proposal and the Capitalization Proposal, the "Related Proposals");

5. To approve our 2008 Stock Incentive Plan (the "2008 Plan");

6. To approve adjournments of the Special Meeting if deemed necessary to facilitate the approval of the above proposals, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting, to establish a quorum or to approve the above proposals; and

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7. To transact such other business as may properly be brought before the Special Meeting or any adjournment or postponement thereof.

Our board of directors has unanimously approved, and recommends that an affirmative vote be cast in favor of, each of the proposals listed on the proxy card and described in the enclosed proxy statement.

Only holders of record of our Common Stock at the close of business on _____ __, 2008 (the "Record Date"), will be entitled to notice of and to vote at the Special Meeting or any adjournment thereof.

You are urged to review carefully the information contained in the enclosed proxy statement prior to deciding how to vote your shares at the Special Meeting.

Because of the significance of the Merger, your participation in the Special Meeting, in person or by proxy, is especially important. We hope you will be able to attend the Special Meeting.

Whether or not you plan to attend the Special Meeting, please complete, sign, date, and return the enclosed proxy card promptly.

If you attend the Special Meeting, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy card. Simply attending the Special Meeting, however, will not revoke your proxy; you must vote at the Special Meeting. If you do not attend the Special Meeting, you may still revoke your proxy at any time prior to the Special Meeting by providing a later dated proxy or by providing written notice of your revocation to our Secretary. Your prompt cooperation will be greatly appreciated.

The notice and proxy statement are first being mailed to stockholders on or about ________ __, 2008.

Please follow the voting instructions on the enclosed proxy card to vote either by mail, telephone or electronically by the Internet.

By Order of the Board of
Directors,

Stephen P . Griggs
President

Houston, Texas

__________ __, 2008

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Annexes

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SUMMARY TERM SHEET

The following summary highlights selected information from this proxy statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to in this proxy statement. Each item in this summary includes a page reference directing you to a more complete description of that item. In this proxy statement, the terms “Secure Alliance,” “Company,” “we,” “our,” “ours,” and “us” refer to Secure Alliance Holdings Corporation, a Delaware corporation, its subsidiaries, and the term “Sequoia” refers to Sequoia Media Group, LC, a Utah limited liability company.

The Special Meeting (Page 19)

Purpose of the Special Meeting (Page 19)

The purpose of the Special Meeting is to vote upon the approval of the Merger Agreement, the Related Proposals and the 2008 Plan, and such other business as may properly be brought before the Special Meeting and any adjournment or postponement thereof.

Record Date and Quorum (Page 19)

You are entitled to vote at the Special Meeting if you owned shares of Common Stock at the close of business on _________, 2008, the Record Date. You will have one vote for each share of Common Stock that you owned on the Record Date. As of the Record Date, there were ___________ shares of Common Stock outstanding and entitled to be voted.

A quorum of the holders of the outstanding shares of Common Stock must be present for the Special Meeting to be held. A quorum is present if the holders of a majority of the outstanding shares of Common Stock entitled to vote are present at the meeting, either in person or represented by proxy. Abstentions and broker non-votes are counted as present for the purpose of determining whether a quorum is present. A broker non-vote occurs on an item when a broker is not permitted to vote on that item without instructions from the beneficial owner of the shares and no instructions are given.

Required Vote (Page 19)

For us to consummate the transactions contemplated by the Merger Agreement, including the Related Proposals, stockholders holding at least a majority of our Common Stock outstanding at the close of business on the Record Date must vote “FOR” the approval and adoption of the Merger Agreement and each of the Related Proposals. All of our stockholders are entitled to one vote per share. A failure to vote your shares, an abstention, or a broker non-vote, will have the same effect as a vote against approval of the Merger Agreement and against the Related Proposals. Approval of the 2008 Plan and the proposal to adjourn the Special Meeting, if necessary or appropriate, requires the favorable vote of a majority of the votes cast at the Special Meeting, in person or by proxy, even if less than a quorum is present.

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Proxies; Revocation (Pages 19 and 20)

Any registered stockholder (meaning a stockholder that holds stock in its own name) entitled to vote may submit a proxy by telephone or the Internet (by following the instructions included on your proxy card) or by returning the enclosed proxy card by mail, or may vote in person by appearing at the Special Meeting. If you elect to submit your proxy by telephone or via the Internet, you will need to provide a personal identification number set forth on the enclosed proxy card upon which you will be provided the option to vote "for," "against" or "abstain" with respect to each of the proposals. All valid proxies received prior to the Special Meeting will be voted. All shares represented by a proxy will be voted, and where a stockholder specifies by means of the proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specification so made. If no choice is indicated on the proxy, the shares will be voted "FOR" the Merger Agreement, "FOR" the Related Proposals, "FOR" the 2008 Plan and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the Special Meeting.

If your shares are held in "street name" by your broker, you should instruct your broker on how to vote your shares using the instructions provided by your broker. If you do not provide your broker with instructions, your shares will not be voted and that will have the same effect as a vote against the Merger and the Related Proposals.

Any registered stockholder who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted in any one of the following ways:

- filing with or transmitting to our Secretary at our principal executive offices, at or before the Special Meeting, an instrument or transmission of revocation that is dated a later date than the proxy;
- sending a later-dated proxy relating to the same shares to our Secretary at our principal executive offices, at or before the Special Meeting;
- submitting a later-dated proxy by the Internet or by telephone, at or before the Special Meeting; or
- attending the Special Meeting and voting in person by ballot.

Simply attending the Special Meeting will not constitute revocation of a proxy. If you have instructed your broker to vote your shares, the above-described options for revoking your proxy do not apply and instead you must follow the directions provided by your broker to change your instructions.

The Parties (Pages 22 and 60-61)

Secure Alliance Holdings Corporation

We are a Delaware corporation which, through our wholly owned subsidiaries, developed, manufactured, sold and supported automated teller machine ("ATM") products and electronic cash security systems, consisting of Timed Access Cash Controller ("TACC") products and Sentinel products (together, the "Cash Security" products).

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We completed the sale of our ATM business on January 3, 2006 and the sale of our Cash Security business on October 2, 2006. On October 2, 2006, we became a shell public company with approximately $12.9 million in cash, cash equivalents and marketable securities held-to-maturity.

Before the sale of our Cash Security and ATM businesses, we were primarily engaged in the development, manufacturing, sale and support of ATM products and the Cash Security products, which were designed for the management of cash within various specialty retail markets.

Following the sale of our Cash Security and ATM businesses, we have had substantially no operations.

Sequoia Media Group, LC

Sequoia is a Utah limited liability company organized on March 28, 2003 under the name Life Dimensions, LC. In 2003, Sequoia changed its name from Life Dimensions, LC to Sequoia Media Group, LC. Sequoia's operations are currently governed by a Board of Managers made up of five managers, three of whom are the original founders and two of whom were appointed as part of a private equity investment. Substantially all of its business is conducted out of its Draper, Utah office. Sequoia also has an office in Bentonville, Arkansas to help service Wal-Mart Stores, Inc., ("Wal-Mart"), which is one of its large retail customers.

Sequoia has developed and deployed a software technology that employs "Automated Multimedia Object Models," its patent pending way of turning consumer captured images, video, and audio into complete digital files in the form of full-motion movies, DVD's, photo books, posters and streaming media files. Sequoia filed its first provisional patent in early 2004 for patent protection on various aspects of its technology with a full filing occurring in early 2005, and Sequoia has filed several patents since that time as part of its intellectual property strategy. Sequoia's technology carries the brand names of "aVinci" and "aVinci Experience."

Since inception, Sequoia has continued to develop and refine its technology to be able to provide higher quality products through a variety of distribution models including in-store kiosks, point of scan kits, and online downloads. Sequoia's business strategy has been to avoid providing traditional multimedia tools and services that focus on providing software for users to purchase and learn how to use so that they can build their own products, and instead provide a product solution that provides users with professionally created templates to be able to automatically create personalized products by simply adding end customer images.

Sequoia currently makes software technology that it packages in various forms available to mass retailers, specialty retailers, Internet portals and web sites that allow end consumers to use an automated process to create products such as DVD productions, photo books, posters, calendars, and other print media products from consumer photographs, digital pictures, video, and other media. Sequoia's customers are retailers and other vendors and not end consumers. Sequoia enables its customers to sell its products to the end consumer who remain customers of its vendor and do not become its customers directly. Sequoia currently delivers its technology to end consumers through (i) third party photo kiosks at mass and specialty retail outlets, (ii) point of scan shrink wrapped software at mass and specialty retail outlets, (iii) simple software downloads through third party Internet sites, (iv) simple software downloads though its own managed Internet site to which third party Internet sites are linked, and (v) on its own managed web servers on the world wide web to which third party Internet sites are linked.

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The Merger (Page 89)

The proposed Merger will result in (i) the merger of Merger Sub with and into Sequoia, with Sequoia becoming the surviving entity and our wholly owned subsidiary, pursuant to the Merger Agreement, as amended, and (ii) each Sequoia membership interest automatically converting into the right to receive 0.87096285 shares of our Common Stock after giving effect to the Reverse Stock Split (the "Merger Consideration"). Accordingly, as a result of the Merger, each member of Sequoia prior to the Merger will have their Sequoia membership interests converted into shares of Secure Alliance and will be stockholders of Secure Alliance after the Merger. The total value of the Merger Consideration is approximately $46.0 to 48.0 million. Immediately following the Merger, the members of Sequoia, in the aggregate, will own approximately 80% or an aggregate of approximately 38,899,018 post-split shares of our Common Stock. Our stockholders as of the Record Date will own the remaining approximately 20% of Common Stock in the combined company. As a result of the Merger, the combined company will consist of Secure Alliance's assets, which are primarily cash and cash equivalents, as well as all of Sequoia's assets, business and operations. For more information on the business operations of Sequoia, see "The Transactions – Information Related to Sequoia" and "The Transactions – Sequoia's Management's Discussion and Analysis of Financial Condition and Results of Operations."

On March 31, 2008, we amended the Merger Agreement to, among other things, (i) effect a 1-for-2 reverse stock split instead of a 1-for-3 reverse stock split, (ii) provide that, immediately prior to the effectiveness of the Merger, we will declare and pay to our stockholders existing as of the Record Date, a cash dividend equal to approximately $2.0 million (the "Dividend") instead of distributing to stockholders common stock of a newly formed company with certain enumerated assets that were to be transferred to it by the Company, (iii) amend the amount of the proposed Merger Consideration to be provided under the Merger Agreement, such that each issued and outstanding Sequoia equity interest will automatically be converted into the right to receive 0.87096285 shares of our Common Stock instead of the right to receive 0.5806419 shares of our Common Stock, which adjustment was made to account for the change from a 1-for-3 reverse stock split to a 1-for-2 reverse stock split, and (iv) remove the closing condition that we have not less than $9.8 million in net cash or cash equivalents. The Merger Agreement was amended to provide for a 1-for-2 reverse stock split instead of a 1-for-3 reverse stock split primarily to ensure sufficient shares were available in the public float to help avoid large pricing fluctuations. The Merger Consideration was adjusted as a result of the change from a 1-for-3 reverse stock split to a 1-for-2 reverse stock split to provide for no change to the respective equity ownership levels following the Merger. The distribution to stockholders in the form of the Dividend was reduced slightly from the distribution originally contemplated in exchange for the removal of the closing condition that we will have not less than $9.8 million in net cash or cash equivalents.

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Reasons for the Merger (Page 26)

Our board of directors (the "Board") approved the Merger and Related Proposals based on a number of factors, including among other things:

- we have been a shell public company since October 2006 with substantially no operations or employees and Sequoia can provide an experienced management team and operating business;
- at the time the Merger Agreement was signed, the Board received no other firm merger proposals or strategic alternatives to improve the Company's financial position;
- the Board received a fairness opinion from Ladenburg Thalmann & Co. Inc. ("Ladenburg") which stated that based upon and subject to the considerations and assumptions set forth in such opinion, the Merger Consideration given to members of Sequoia is fair, from a financial point of view, to our stockholders;
- the Company has the ability to engage in discussion and negotiations with third parties that make unsolicited superior proposals; and
- a merger with Sequoia may improve stockholder value.

In addition, the Company weighed certain risks inherent with a merger transaction, including those described under "Risk Factors" beginning on page 29. Based on these factors, the Board determined that the Merger was in the best interests of our stockholders.

Effects of the Merger (Page 42)

Immediately following the Merger, the members of Sequoia will own on a nondiluted basis, in the aggregate, 38,899,018 post-split shares of our Common Stock and our current stockholders will own approximately 20% of the Company's outstanding Common Stock on a nondiluted basis. Although this represents substantial dilution of the percentage ownership interest of current stockholders, we will receive the benefit of Sequoia's operations as consideration in the Merger, since we have had substantially no operations since October 2006. We believe Sequoia has an equity value in the range of $40.2 million to $62.8 million, which upon consummation of the Merger will increase the value of Secure Alliance significantly. Following the Merger, we will have a total of 48,619,680 shares of Common Stock outstanding. In addition, in connection with the Merger, stockholders of Secure Alliance, prior to the effective date of the Merger, will receive the Dividend.

If the Merger Agreement is not approved and the Merger is not completed, our business may be adversely affected. The market price of our Common Stock may decline to the extent that the current market price reflects a market assumption that the Merger and the Related Proposals will be completed and many costs related to the Merger and the Related Proposals, such as legal, accounting, financial advisor and financial printing fees, have to be paid regardless of whether the Merger is completed.

Interests of our Directors and Executive Officers in the Merger (Page 42)

Our directors and executive officers may have interests in the Merger that are different from, or in addition to, yours, including options to purchase 950,000 shares of Common Stock held by each of Jerrell G. Clay and Stephen P. Griggs, that, pursuant to the terms of the 1997 Long Term Incentive Plan will become fully vested upon the consummation of the Merger.

Opinion of Ladenburg (Page 42 and Annex B)

Ladenburg has delivered its opinion to our Board that, as of the date of its opinion and based upon and subject to the factors and assumptions set forth therein, the Merger Consideration is fair, from a financial point of view, to our unaffiliated stockholders. The Ladenburg opinion was based on a reverse stock split of 1-for-3 and the Merger Consideration of 0.5806419 shares of our Common Stock. Subsequently, we amended the Merger Agreement to provide for, among other things, a Reverse Stock Split of 1-for-2 with a corresponding change to the Merger Consideration and the distribution of a cash Dividend instead of distributing stock of a newly formed subsidiary with certain enumerated assets that were to be contributed to it by the Company. Ladenburg has not reviewed the amendment to the Merger Agreement. Although our Board believes the amendment to the Merger Agreement does not materially impact Ladenburg's fairness opinion, there can be no assurance that Ladenburg's opinion is still accurate.

The opinion of Ladenburg is addressed to the Board for their benefit and use and was rendered in connection with its consideration of the Merger and does not constitute a recommendation to any of our stockholders as to how to vote in connection with the Merger and Related Proposals. The opinion of Ladenburg does not address our underlying business decision to pursue the Merger, the relative merits of the Merger as compared to any alternative business strategies that might exist for us, the financing of the Merger or the effects of any other transaction in which the Company might engage. The full text of the written opinion of Ladenburg, dated November 29, 2007, which sets forth the procedures followed, limitations on the review undertaken, matters considered and assumptions made in connection with such opinion, is attached as Annex B to this proxy statement. We recommend that you read the opinion carefully in its entirety.

Indemnification and Insurance (Page 52)

The Merger Agreement provides that all rights to indemnification or exculpation existing in favor of the employees, agents, directors (including two former directors) or officers of the Company and our subsidiaries in effect on the date of the Merger Agreement, will continue in full force and effect for a period of six years after the Merger. Additionally, we will purchase a single payment, run-off policy or policies of directors' and officers' liability insurance covering such parties for a period of six years after the Merger. We will also indemnify and hold harmless such parties in respect of acts or omissions occurring at or prior to the closing of the Merger.

Loan Agreement with Sequoia (Page 52)

Pursuant to a Loan and Security Agreement ("Loan Agreement") dated as of December 6, 2007 by and between the Company and Sequoia, we have agreed to extend (and have extended) $2.5 million in secured financing to Sequoia. Under the terms of the Loan Agreement, Sequoia has agreed to pay interest on the loan at a rate per annum equal to 10%. Interest on the loan is payable on December 31, 2008, the scheduled maturity date. In addition, if the loan obligations have not been paid in full on or prior to the scheduled maturity date, a monthly fee equal to 10% of the outstanding loan obligations is payable to us by Sequoia on the last day of each calendar month for which the loan obligations remain outstanding.

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We entered into the Loan Agreement to provide Sequoia with additional capital for working capital purposes and to provide Sequoia with additional liquidity until the Merger. If the Merger is not approved, the Loan Agreement provides for Sequoia to repay the loan as set forth above, on the terms and conditions set forth in the Loan Agreement.

Material United States Federal Income Tax Consequences (Page 53)

We do not expect that the proposals will result in any federal income tax consequences to our stockholders. However, to the extent we declare and pay the Dividend, a portion of the distribution may be taxable as "qualified dividend income", generally taxable at a federal rate of 15%, to the extent paid out of a stockholder's pro rata share of our current or accumulated earnings and profits. Any portion of the distribution in excess of each holder's pro rata share of our earnings and profits will be treated first as a tax-free return of capital to the extent of each stockholder's tax basis in his, her or its shares of our Common Stock, with any remaining portion treated as capital gain. Non-United States holders of our Common Stock generally will be subject to withholding on the gross amount of the distribution at a rate of 30% or such lower rate as may be permitted by an applicable income tax treaty. Because individual tax circumstances of stockholders vary, stockholders should consult their own tax advisors regarding the tax consequences to them of the distribution.

Regulatory Approvals (Page 53)

We are unaware of any material federal, state or foreign regulatory requirements or approvals required for the execution of the Merger Agreement or completion of the Merger.

Exclusivity; No Solicitation of Transactions (Page 92)

The Merger Agreement restricts our ability to solicit or engage in discussions or negotiations with third parties regarding specified transactions involving the Company. Notwithstanding these restrictions, under certain limited circumstances required for our Board to comply with its fiduciary duties, our Board may respond to an unsolicited written bona fide proposal for an alternative transaction, change its recommendation in support of the Merger or terminate the Merger Agreement and enter into an agreement with respect to a superior proposal after paying a termination fee specified in the Merger Agreement.

Conditions to Merger (Page 95)

The Merger Agreement is subject to customary closing conditions including, among other things, (i) the approval of the Merger Agreement and Related Proposals by our stockholders as set forth in this proxy statement, (ii) the sufficiency of shares of our capital stock authorized to complete the Merger, and (iii) the accuracy of each party's representations and warranties.

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The approval of the 2008 Plan is not a condition to the consummation of the Merger, but is being proposed in connection with the Merger and will not be presented at the meeting for a vote if the Related Proposals that are conditions to the Merger are not approved or waived (where practical). If the Reverse Stock Split Proposal or the Capitalization Proposal is not approved, we cannot effect the Merger or the other transactions contemplated by the Merger Agreement because we will not have sufficient shares to issue to Sequoia to consummate the Merger. Accordingly, although each of Sequoia and us have the contractual right to waive these conditions, as a practical matter they may not both be waived. If the Name Change Proposal is not approved, absent a waiver by Sequoia and us, we cannot effect the Merger or the other transactions contemplated by the Merger Agreement.

Termination Fee (Page 92)

Should the Merger Agreement be terminated before consummation by the Company in connection with the Company's acceptance of a superior proposal, the Company has agreed to pay Sequoia a termination fee of $1,000,000 in cash under certain circumstances.

No Right of Appraisal (Page 119)

You will not experience any change in your rights as a stockholder as a result of the Merger or Related Proposals. None of Delaware law, our Certificate of Incorporation or our bylaws provides for appraisal or other similar rights for dissenting stockholders in connection with the Merger or the Related Proposals. Accordingly, you will have no right to dissent and obtain payment for your shares.

Board Composition and Management following the Merger (Page 53)

Upon completion of the Merger, Jerrell G. Clay, our Chief Executive Officer, and Stephen P. Griggs, our President, Chief Operating Officer, Principal Financial Officer and Secretary, will resign from the Company, but will remain directors on our Board. Following the merger, we expect our directors and executive officers to be as follows: Chett B. Paulsen, as President, Chief Executive Officer and director, Richard B. Paulsen, as Vice President, Chief Technology Officer and director, Edward B. Paulsen, as Secretary/Treasurer, Chief Operating Officer and director, Terry Dickson, as Vice President of Marketing and Business Development and Tod M. Turley and John E. Tyson as directors.

Reverse Stock Split Proposal (Page 101)

On or prior to the closing date of the Merger and subject to the approval of our stockholders, we will amend and restate our Certificate of Incorporation in order to effect the 1-for-2 Reverse Stock Split. The Reverse Stock Split is a condition to the consummation of the Merger to ensure a sufficient number of shares are available for issuance to Sequoia. The Reverse Stock Split will also have the effect of reducing the number of shares of Common Stock issued and outstanding, which may correspondingly increase the price per share of our Common Stock. If the Merger is not consummated, this proposal to amend our Certificate of Incorporation will not take effect. The form of amendment for the Reverse Stock Split Proposal is attached to this proxy statement as Annex C.

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Capitalization Proposal (Page 103)

On or prior to the closing date of the Merger and subject to approval of our stockholders, we will amend and restate our Certificate of Incorporation in order to increase the authorized share capital of the Company to 250,000,000 shares of Common Stock and 50,000,000 shares of preferred stock, par value $.01 per share. The Capitalization Proposal is a condition to the consummation of the Merger and is necessary because the Company's current authorized share capitalization is insufficient to issue the number of shares necessary to complete the Merger. Increasing the authorized share capital of the Company should provide us with the shares necessary to complete the Merger and to address any future needs. If the Merger is not consummated, this proposal to amend our Certificate of Incorporation will not take effect. The form of amendment for the Capitalization Proposal is attached to this proxy statement as Annex C.

Name Change Proposal (Page 105)

Upon the consummation of the Merger and subject to approval of our stockholders, we will amend and restate our Certificate of Incorporation in order to change our name from "Secure Alliance Holdings Corporation" to "aVinci Media Corporation". If the Merger is not consummated, this proposal to amend our Certificate of Incorporation will not take effect. The form of amendment for the Name Change is attached to this proxy statement as Annex C.

2008 Plan Proposal (Page 106)

The 2008 Plan will take effect upon the consummation of the Merger, subject to approval of our stockholders. If the Merger is not consummated, the 2008 Plan will not take effect. The 2008 Plan is attached to this proxy statement as Annex D.

Recommendation of our Board (Page 99)

Our Board has:

- determined that the Merger Agreement and Merger are advisable and fair to and in the best interests of the Company and its unaffiliated stockholders;
- approved and adopted the Merger Agreement, the Related Proposals and the 2008 Plan; and
- recommended that our stockholders vote "FOR" the approval and adoption of the Merger Agreement and "FOR" the approval and adoption of each of the Related Proposals and "FOR" the approval and adoption of the 2008 Plan.

In considering the recommendation of the Board with respect to the Merger, you should be aware that some of our directors and executive officers may have interests in the Merger that are different from, or in addition to, the interests of our stockholders generally. For the factors considered by our Board in reaching its decision to approve and adopt the Merger Agreement, see "The Transactions-- Reasons for the Merger."

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In addition, the Merger Agreement has been approved by Sequoia's Board of Managers and a majority of the members of Sequoia.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q. Why are our stockholders receiving these materials?

A. Our Board is sending these proxy materials to provide our stockholders with information about the Merger, the Merger Agreement, the Related Proposals and the 2008 Plan, so that you may determine how to vote your shares in connection with the Special Meeting.

Q. When and where is the Special Meeting?

A. The special meeting will be held on [______], 2008 at [______], located at [______], at [___]:00 [___].m., local time.

Q. Who is soliciting my proxy?

A. This proxy is being solicited by the Board.

Q. Who is paying for the solicitation of proxies?

A. We will bear the cost of solicitation of proxies by us. In addition to soliciting stockholders by mail, our directors, officers and employees, without additional remuneration, may solicit proxies in person or by telephone or other means of electronic communication. We will not pay these individuals for their solicitation activities but will reimburse them for their reasonable out-of-pocket expenses. Brokers and other custodians, nominees and fiduciaries will be requested to forward proxy-soliciting material to the owners of stock held in their names, and we will reimburse such brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket costs. Solicitation by our directors, officers and employees may also be made of some stockholders in person or by mail, telephone or other means of electronic communication following the original solicitation.

Q. What will be voted on at the Special Meeting?

A. You are being asked to approve the following proposals:

- the Merger Agreement;
- a certificate of amendment to our Certificate of Incorporation to effect the 1-for-2 Reverse Stock Split;
- a certificate of amendment to our Certificate of Incorporation to increase the number of authorized shares of our Common Stock from 100,000,000 to 250,000,000 and to authorize a class of preferred stock consisting of 50,000,000 shares of $.01 par value preferred stock;
- a certificate of amendment to our Certificate of Incorporation to change our name from “Secure Alliance Holdings Corporation” to “aVinci Media Corporation”;

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- the 2008 Plan; and

- adjournments of the Special Meeting if deemed necessary to facilitate the approval of the above proposals, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve the above proposals.

The Related Proposals and 2008 Plan, if approved, will take effect only if the Merger is consummated.

Q. Why does the Merger Agreement provide for the amendment of our Certificate of Incorporation?

A. The Merger Agreement provides for the amendment of our Certificate of Incorporation to effect the Reverse Stock Split, the Capitalization Proposal and the Name Change. Specifically, we will need to amend our Certificate of Incorporation to effect the Reverse Stock Split to ensure a sufficient number of shares are available for issuance to Sequoia upon consummation of the Merger. The Reverse Stock Split will also have the effect of reducing the number of shares of Common Stock issued and outstanding, which may correspondingly increase the price per share of our Common Stock. We will also need to amend our Certificate of Incorporation to effect the Capitalization Proposal because we will be issuing an additional 38,899,018 shares of Common Stock upon the consummation of the Merger. We currently have 78,461,176 shares of Common Stock available for issuance. The increase in the number of authorized shares, in addition to the creation of a class of preferred stock, will ensure that sufficient shares are available to be issued in connection with the Merger and that an adequate number of shares will be available for future business.

The amendments to our Certificate of Incorporation will take effect only if the Merger is consummated.

Q. What will I receive in the Merger?

A. In connection with the Merger, prior to the effective date of the Merger, our individual stockholders will receive the Dividend. Following the Merger, our stockholders will remain stockholders of the combined company, although their ownership interests will be substantially diluted by the shares issued related to the Merger. However, as a result of the Merger, the combined company will consist of Secure Alliance's assets, which are primarily cash and cash equivalents, as well as all of Sequoia's assets, business and operations.

Q. How does the Board recommend that I vote on the proposals?

A. Our Board unanimously recommends that you vote "FOR" all of the proposals submitted.

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Q. What vote is required to approve the proposals?

A. For us to consummate the transactions contemplated by the Merger Agreement, including the Related Proposals, stockholders holding at least a majority of Common Stock outstanding at the close of business on the Record Date must vote "FOR" the approval and adoption of the Merger Agreement and each of the Related Proposals. The 2008 Plan requires the favorable vote of a majority of the votes cast at the Special Meeting, in person or by proxy, even if less than a quorum.

Q. Who may attend the special meeting?

A. All of our stockholders who owned shares on [___________], 2008, the Record Date for the Special Meeting, may attend.

Q. Who may vote at the special meeting?

A. Only holders of record of our Common Stock as of the close of business on the Record Date, may vote at the Special Meeting. As of the Record Date, we had [___________] outstanding shares of our Common Stock entitled to vote.

Q. If I hold my shares in "street name" through my broker, will my broker vote my shares for me?

A. Your broker will vote your shares only if you provide instructions on how to vote. If you do not provide your broker with instructions on how to vote, your broker's non-votes will have the same effect as votes AGAINST approval of the Merger Agreement and the Related Proposals and will have no effect on the vote regarding the 2008 Plan. A broker non-vote occurs on an item when a broker is not permitted to vote on that item without instructions from the beneficial owner of the shares and no instructions are given. To avoid a broker non-vote with respect to your shares, you should follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

Q. What constitutes a quorum at the Special Meeting?

A. A quorum is present if the holders of a majority of the outstanding shares of Common Stock entitled to vote are present at the meeting, either in person or represented by proxy. Abstentions and broker non-votes are counted as present for the purpose of determining whether a quorum is present.

Q. What happens if I withhold my vote or abstain from voting?

A. If you withhold a vote or abstain from voting on the proposal for the adoption of the Merger Agreement and the approval of the Related Proposals, it will have the same effect as a vote "AGAINST" the proposals. Approval of the 2008 Plan and the proposal to adjourn the Special Meeting, if necessary or appropriate, requires the favorable vote of a majority of the votes cast at the Special Meeting, in person or by proxy, even if less than a quorum, and, therefore, withholding a vote or abstaining from voting will have no effect on the proposals to approve the 2008 Plan or to adjourn the Special Meeting.

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Q. What do I need to do now?

A. After you read and consider the information in this proxy statement, return your signed proxy card in the enclosed return envelope or vote by telephone or the Internet by following the instructions included on your proxy card as soon as possible, so that your shares may be represented at the Special Meeting. You should return your proxy card or vote by telephone or the Internet whether or not you plan to attend the meeting. If you do attend the meeting, you may revoke your proxy at any time before it is voted and vote in person if you wish.

Q. How do I vote?

A. You may vote either by casting your vote in person at the meeting, or by marking, signing and dating each proxy card you receive and returning it in the prepaid envelope, by telephone, or electronically through the Internet by following the instructions included on your proxy card.

The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedures, which are designed to comply with Delaware law, allow stockholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded.

If you hold your shares in "street name" through a broker or other nominee, you may be able to vote by telephone or electronically through the Internet in accordance with the voting instructions provided by that institution.

Q. What do I do if I want to change my vote after I return my proxy card, or after I vote by telephone or electronically?

A. You can change your vote at any time before your proxy is voted at the Special Meeting. You can do this in one of four ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card at a later date. If you choose either of these methods, you must submit your notice of revocation or your new proxy card to us so that it is received before the Special Meeting. Third, you can vote again by telephone or the Internet. Finally, you can attend the Special Meeting and vote in person. Simply attending the Special Meeting, however, will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

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Q. If the proposals are approved and completed, what do I do with my stock certificate upon the completion of the Reverse Stock Split?

A. Nothing now. As soon as practicable after the filing of the amendment to our Certificate of Incorporation effecting the Reverse Stock Split, stockholders will be notified and provided the opportunity (but shall not be obligated) to surrender their certificates to an exchange agent in exchange for certificates representing post-split Common Stock. Stockholders will not receive certificates for shares of post-split Common Stock unless and until the certificates representing their shares of pre-split Common Stock are surrendered and they provide such evidence of ownership of such shares as we or the exchange agent may require. Stockholders should not forward their certificates to the exchange agent until they have received notice from us that the Reverse Stock Split has become effective. Beginning on the Reverse Stock Split effective date, each certificate representing shares of our pre-split Common Stock will be deemed for all purposes to evidence ownership of the appropriate number of shares of post-split Common Stock.

Q. Will the Merger or the consummation of the Related Proposals be taxable to me?

A. No. We do not expect that the Merger or consummation of the Related Proposals will result in any federal income tax consequences. However, to the extent we declare and pay the Dividend, a portion of the distribution may be taxable as "qualified dividend income", generally taxable at a federal rate of 15%, to the extent paid out of a stockholder's pro rata share of our current or accumulated earnings and profits. Any portion of the distribution in excess of each holder's pro rata share of our earnings and profits will be treated first as a tax-free return of capital to the extent of each stockholder's tax basis in his, her or its shares of our Common Stock, with any remaining portion treated as capital gain. Non-United States holders of our Common Stock generally will be subject to withholding on the gross amount of the distribution at a rate of 30% or such lower rate as may be permitted by an applicable income tax treaty. Because individual tax circumstances of stockholders vary, stockholders should consult their own tax advisors regarding the tax consequences to them of the distribution.

Q. Who can I contact with questions?

A. If you have questions about the Special Meeting or the transactions after reading this proxy statement, you should contact our proxy solicitor, Mackenzie Partners, Inc. at 105 Madison Avenue, 14th Floor, New York, New York 10016, or call collect at (212) 929-5500 or toll free at (800) 322-2885.

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GENERAL INFORMATION ABOUT THE SPECIAL MEETING

Place and Time. The meeting will be held at _________________ on ___________ __, 2008 at __:__ _.m., local time.

Record Date and Voting. Our Board fixed the close of business on _________, 2008, as the Record Date for the determination of holders of our outstanding shares entitled to notice of and to vote on all matters presented at the Special Meeting. Such stockholders will be entitled to one vote for each share held on each matter submitted to a vote at the Special Meeting. As of the Record Date, there were __________ shares of Common Stock, issued and outstanding, each of which is entitled to one vote on each matter to be voted upon. You may vote in person or by proxy.

Purpose of the Special Meeting. The purpose of the Special Meeting is to vote upon the (i) approval of the Merger Agreement; (ii) approval of the Related Proposals, (iii) approval of the 2008 Plan, (iv) adjournment of the Special Meeting, if necessary, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to approve the Merger Agreement, the Related Proposals and the 2008 Plan; and (v) such other business as may properly be brought before the Special Meeting and any adjournment or postponement thereof.

Quorum. The required quorum for the transaction of business at the Special Meeting is a majority of the votes eligible to be cast by holders of shares of Common Stock issued and outstanding on the Record Date. Shares that are voted "FOR," "AGAINST" a proposal or marked "ABSTAIN" are treated as being present at the Special Meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the Special Meeting with respect to such proposal.

Abstentions and Broker Non-Votes. Broker "non-votes" and the shares of Common Stock as to which a stockholder abstains are included for purposes of determining whether a quorum of shares of Common Stock is present at a meeting. A broker "non-vote" occurs when a nominee holding shares of Common Stock for the beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Since the Merger Agreement and Related Proposals require the approval of the holders of a majority of our shares outstanding, both broker "non-votes" and abstentions would have the same effect as votes against such proposals. With respect to the proposals to adopt the 2008 Plan and approve the adjournment of the Special Meeting if deemed necessary, neither broker "non-votes" nor abstentions are included in the tabulation of the voting results and, therefore, they do not have the effect of votes against such proposals.

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Voting of Proxies. Our Board is asking for your proxy. Giving the Board your proxy means you authorize it to vote your shares at the Special Meeting in the manner you direct. After carefully reading and considering the information contained in this proxy statement, you should either complete, date and sign the enclosed proxy card and mail the proxy card in the enclosed return envelope as soon as possible or promptly submit your proxy by telephone or over the Internet following the instructions on the proxy card so that your shares of Common Stock are represented at the Special Meeting, even if you plan to attend the Special Meeting in person. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedures, which are designed to comply with Delaware law, allow stockholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded. If you hold your shares in “street name” through a broker or other nominee, you may be able to vote by telephone or electronically through the Internet in accordance with the voting instructions provided by that institution.

All valid proxies received prior to the Special Meeting will be voted. All shares represented by a proxy will be voted, and where a stockholder specifies by means of the proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specification so made. If no choice is indicated on the proxy, the shares will be voted “FOR” the Merger Agreement, “FOR” the Related Proposals, “FOR” the 2008 Plan and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the Special Meeting. A stockholder giving a proxy has the power to revoke his or her proxy, at any time prior to the time it is voted, by delivering to our Secretary a written instrument that revokes the proxy or a validly executed proxy with a later date, or by attending the Special Meeting and voting in person. The form of proxy accompanying this proxy statement confers discretionary authority upon the named proxy holders with respect to amendments or variations to the matters identified in the accompanying Notice of Special Meeting and with respect to any other matters that may properly come before the Special Meeting. As of the date of this proxy statement, management knows of no such amendment or variation or of any matters expected to come before the Special Meeting that are not referred to in the accompanying Notice of Special Meeting.

Attendance at the Special Meeting. Only holders of Common Stock, their proxy holders and guests we may invite may attend the Special Meeting. If you wish to attend the Special Meeting in person but you hold your shares through someone else, such as a stockbroker, you must bring proof of your ownership and identification with a photo at the Special Meeting. For example, you could bring an account statement showing that you beneficially owned shares of Common Stock as of the Record Date as acceptable proof of ownership.

Accounting Information. Representatives of our independent registered public accountants, Hein & Associates LLP, are expected to be present at the Special Meeting to answer appropriate questions. They will also have the opportunity to make a statement if they desire to do so.

Costs of Solicitation. We will bear the cost of printing and mailing proxy materials, including the reasonable expenses of brokerage firms and others for forwarding the proxy materials to beneficial owners of Common Stock. In addition to solicitation by mail, solicitation may be made by certain of our directors, officers and employees, or firms specializing in solicitation; and may be made in person or by telephone or telegraph. No additional compensation will be paid to any of our directors, officers or employees for such solicitation. We have retained Mackenzie Partners, Inc., 105 Madison Avenue, 14th Floor, New York, New York 10016, as proxy solicitor, for a fee of $7,500 plus out-of-pocket expenses.

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Stockholder Nominations and Proposals. The Company's By-Laws require stockholders to provide advance notice prior to bringing business before an annual meeting or to nominate a candidate for director at the meeting. In order for a stockholder to properly bring business or propose a director at the 2009 annual meeting of stockholders, the stockholder must give written notice to the Company. To be timely, a stockholder's notice must be received by the Company not less than 45 days prior to the anniversary of the mailing of the prior years' annual meeting of stockholders proxy. These procedures apply to any matter that a stockholder wishes to raise at the 2009 annual meeting of stockholders, other than those raised pursuant to 17 C.F.R. §240.14a-8 of the Rules and Regulations of the SEC.

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THE TRANSACTIONS

This section of the proxy statement describes certain aspects of the Merger, the Merger Agreement and the Related Proposals. While we believe that the description covers the material terms of the Merger and the transactions contemplated thereby, this summary may not contain all of the information that may be important to you. You should read carefully this entire document and the other documents referred to in this proxy statement, including the Merger Agreement, for a more complete understanding of the Merger and the transactions contemplated thereby. Unless otherwise defined in this section, all capitalized terms used in this section have the meanings ascribed to them in the section titled "Summary."

Background of the Merger

We are a Delaware corporation which, through our wholly owned subsidiaries, developed, manufactured, sold and supported ATM products and electronic cash security systems, consisting of TACC products and Sentinel products.

We completed the sale of our ATM business on January 3, 2006 and the sale of our Cash Security business on October 2, 2006. On October 2, 2006, we became a shell public company with approximately $12.9 million in cash, cash equivalents and marketable securities held-to-maturity.

Before the sale of our Cash Security and ATM businesses, we were primarily engaged in the development, manufacturing, sale and support of ATM products and the Cash Security products, which were designed for the management of cash within various specialty retail markets.

On September 25, 2006, the holders of a majority of shares of our outstanding stock approved a proposal that we amend our Certificate of Incorporation and change our name from "Tidel Technologies, Inc." to "Secure Alliance Holdings Corporation." In addition, our subsidiaries effected the following name changes at or about the same time: Tidel Engineering, L.P. changed its name to Secure Alliance, L.P., Tidel Cash Systems, Inc. changed its name to Secure Alliance Cash Systems, Inc. and Tidel Services, Inc. changed its name to Secure Alliance Services, Inc.

Following the sale of our Cash Security and ATM businesses, we have had substantially no operations.

In March 2007, one of our stockholders and an investor of Sequoia contacted Jerrell G. Clay, our Chief Executive Officer, and Stephen P. Griggs, our President, Chief Operating Officer, Principal Financial Officer and Secretary, regarding a potential business combination or other strategic transaction with Sequoia.

During the first few weeks of March 2007, our management received certain business and financial information about Sequoia, including an investment overview and presentation from one of Sequoia's outside directors, Tod M. Turley. Mr. Turley also provided an overview of Amerivon Holdings LLC, a private equity group that is a significant investor in Sequoia ("Amerivon Holdings").

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On March 16, 2007, our management team met in Sugarland, Texas with Sequoia's other outside director, John E. Tyson, to discuss Sequoia's business prospects and to learn more about Amerivon Holdings.

Over the next few weeks, Mr. Turley provided our management with additional information regarding Sequoia's business operations, management and capitalization, as well as updated financial statements of Sequoia. Mr. Turley also proposed a reverse merger as the potential structure for a business combination between Sequoia and our Company.

On April 9 and April 10, 2007, Messrs. Griggs and Clay met with Sequoia's management and full Board of Managers in Sequoia's offices in Draper, Utah. At the meeting, Sequoia introduced its technology and discussed its business plan going forward. The parties discussed the contracts signed by Sequoia, including a contract with Fujicolor to deploy Sequoia's technology for making DVDs in domestic Wal-Mart stores. Messrs. Griggs and Clay then presented details of Secure Alliance's cash position to Sequoia's Board of Managers. At the end of the meeting, we agreed to conduct preliminary due diligence discussions regarding Sequoia's business, prospects and potential benefits of a combination of the two companies.

Following this meeting, Sequoia retained the law firm of Cohne, Rappaport & Segal, P.C., Salt Lake City, Utah, or CRS, to advise it in respect of a possible strategic transaction.

On April 18, 2007, we requested our legal counsel, Olshan Grundman Frome Rosenzweig & Wolosky LLP, New York, New York, or Olshan, to advise us in respect of a possible strategic transaction. We also requested Olshan to consider possible structures for a business combination with Sequoia.

On May 2, 2007, we received from Edward "Ted" B. Paulsen, the Secretary/Treasurer and Chief Operating Officer of Sequoia, an outline of the general terms of a business combination. In the proposal, Sequoia presented a potential pre-merger valuation of $60-$65 million for Sequoia.

On May 4, 2007, our management team discussed Sequoia's proposal with representatives from Olshan. Mr. Griggs also contacted Edward Paulsen to discuss the valuation. At this time, Sequoia informed us that they had engaged Tanner LC to begin work on an audit for 2006 in anticipation of needing audited financial information for a potential transaction.

On May 13, 2007, Edward Paulsen sent our management a revised pre-merger valuation of $55 million for Sequoia and assumed we would have $13-$15 million in cash available for a transaction.

Over the next week, our management continued to review information sent by Sequoia regarding its pre-merger valuation and had several teleconferences with Sequoia's management.

On May 21, 2007, our management informed Olshan that it had reached a deal with Sequoia and that CRS would begin drafting the legal documents. At this time we also began our full due diligence review of Sequoia, which continued over the next few months.

On June 7, 2007, Messrs. Griggs and Clay met with Sequoia's full Board of Managers and management at Sequoia's offices in Utah. Sequoia provided a business update, which included the anticipated timing for the Wal-Mart launch in July 2007. Additional due diligence documents were also exchanged.

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On July 31, 2007, an initial draft of an exchange agreement, prepared by CRS, was delivered to the Company.

On August 2, 2007, Messrs. Griggs and Clay met again with Sequoia's full Board of Managers and management at Sequoia's offices in Utah to discuss the timing of the transaction and to finalize business terms. Sequoia explained that it would have to wait for its financial statements to be prepared, but was committed to moving things forward as quickly as possible. We also discussed engaging Ladenburg to provide a third-party valuation of the transaction.

Over the next few weeks, our Board reviewed the draft exchange agreement and discussed its terms with Olshan. We, through our counsel, responded to Sequoia's draft of the exchange agreement in September 2007 and proposed that the exchange agreement be structured in the form of a merger agreement. The Board negotiated the addition of enhanced representations and warranties and the ability to terminate the agreement if a superior proposal was received by the Company, in which case a $1,000,000 termination fee would be payable to Sequoia in the event we consummated a superior proposal. The Board devoted substantial time to determining the structure of the Merger.

On September 13, 2007, we engaged Ladenburg to prepare a fairness opinion regarding the proposed Merger Consideration.

During the third quarter, Sequoia learned that its full functionality would not be made available in Wal-Mart before 2008 because of problems with its kiosk partner.

On October 17, 2007, Mr. Griggs participated in a teleconference with Chett B. Paulsen, John Tyson and Edward Paulsen to discuss the Wal-Mart situation. During this call, Sequoia provided new projections and the parties discussed resetting the valuation for the Merger.

On October 23 and 24, 2007, our management team met with Sequoia's management team at Sequoia's offices in Utah to finalize the valuation for Sequoia. Over the next few weeks, the parties agreed to modify the valuation for Sequoia to between $46-$48 million and limit the amount of funds coming from Secure Alliance to $11.3 million, to ensure Sequoia would hold approximately 80% of our Common Stock following the Merger.

On October 26, 2007, representatives of Sequoia and CRS met with Olshan at its offices in New York and discussed the terms of the draft Merger Agreement. Following these discussions, CRS distributed a revised draft Merger Agreement on October 29, 2007 which reflected negotiated revisions, the most significant of which was the agreement that representations and warranties would not survive the closing of the Merger. During these negotiations, the Board continued to conduct ongoing due diligence of the business of Sequoia.

Concurrent with the negotiation of the Merger Agreement, we negotiated the terms of the Loan Agreement with Sequoia and its counsel to extend a secured line of credit to Sequoia for working capital purposes after we realized that the proxy statement would not be completed until both companies completed their 2007 financial audits, which would not be until the first quarter of 2008.

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During November 2007, the Board continued to negotiate the Merger Agreement, including without limitation the Merger Consideration under the Merger Agreement and certain tax effects of the Merger for the Company. The Board also discussed providing in the Merger Agreement for a distribution of common stock of a newly formed subsidiary with certain enumerated assets that were to be transferred to it by the Company, a 1-for-3 reverse stock split of our Common Stock, the Capitalization Proposal and the Name Change.

On November 21, 2007, the Company issued a Current Report on Form 8-K disclosing that it was in negotiations with Sequoia.

On November 29, 2007, a meeting of the Board was held. Messrs. Griggs and Clay were present at the meeting, as were representatives from Olshan and Ladenburg. A general discussion among the members of the Board then ensued as to the terms of the Merger Agreement. A representative of Ladenburg then summarized for the Board various aspects of the proposed Merger, including, among other things, net book value valuations, the impact of the proposed distribution of common stock of a newly formed subsidiary of the Company, Sequoia's financial performance, the indicated value range of the transaction using various methodologies, certain aspects of Sequoia's business model and customer base, and Sequoia's valuation relative to selected comparable companies. The Board requested that Ladenburg render an opinion as to whether the proposed Merger Consideration to be received by the Company was fair from a financial point of view to the Company's unaffiliated stockholders. Ladenburg then delivered to the Board an opinion that, as of November 29, 2007 and based upon and subject to the factors and assumptions set forth in the opinion, the Merger Consideration given to members of Sequoia pursuant to the Merger Agreement is fair, from a financial point of view, to our stockholders. The full text of the written opinion of Ladenburg, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with such opinion, is attached as Annex B to this proxy statement.

The Board considered its fiduciary obligations in light of the proposed Merger including, the duty to evaluate the Merger, the Merger Agreement and all related transactions contemplated therein on behalf of the Company's unaffiliated stockholders and to be fully informed and exercise due care in its deliberations and efforts. The Board discussed a number of factors including the proposed terms of the Merger Agreement, the risks and merits of the Merger and the risks and merits of not pursuing the Merger.

The Board, at a meeting held on November 29, 2007, unanimously approved the Merger Agreement, unanimously found the Merger Agreement to be fair to, advisable for, and in the best interests of, the Company and its stockholders and unanimously resolved to recommend that the Company's stockholders adopt and approve the Merger Agreement.

On December 6, 2007, we executed the Merger Agreement and issued a Current Report on Form 8-K to announce the signing of the Merger Agreement with Sequoia and to file a copy of the Merger Agreement as an exhibit.

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Concurrent with the signing of the Merger Agreement, we extended a $2,500,000 secured line of credit to Sequoia pursuant to the terms of the Loan Agreement, $1,000,000 of which was advanced on the date of the Loan Agreement, $1,000,000 was advanced on January 15, 2008, and $500,000 was advanced on February 15, 2008. Pursuant to the terms of the Loan Agreement, Sequoia has agreed to pay interest on the loan at a rate per annum equal to 10%. Interest on the loan is payable on December 31, 2008, the scheduled maturity date. In addition, if the loan obligations have not been paid in full on or prior to the scheduled maturity date, a monthly fee equal to 10% of the outstanding loan obligations is payable to us by Sequoia on the last day of each calendar month for which the loan obligations remain outstanding.

On March 31, 2008, we amended the Merger Agreement to, among other things, (i) effect a 1-for-2 reverse stock split instead of a 1-for-3 reverse stock split, (ii) provide that, immediately prior to the effectiveness of the Merger, we will declare and pay the Dividend instead of distributing to stockholders common stock of a newly formed company with certain enumerated assets that were to be transferred to it by the Company, (iii) amend the amount of the proposed Merger Consideration to be provided under the Merger Agreement, such that each issued and outstanding Sequoia equity interest will automatically be converted into the right to receive 0.87096285 shares of our Common Stock instead of the right to receive 0.5806419 shares of our Common Stock, which adjustment was made to account for the change from a 1-for-3 reverse stock split to a 1-for-2 reverse stock split, and (iv) remove the closing condition that we have not less than $9.8 million in net cash or cash equivalents.

Reasons for the Merger

In reaching its conclusion regarding the fairness of the Merger to our unaffiliated stockholders and its decision to approve and adopt the Merger Agreement, the Board consulted with management and its financial and legal advisors. The Board considered the following factors and potential benefits, each of which it believed affected its decision:

- The Company’s Financial Condition. We are a shell public company with substantially no operations or employees since October 2, 2006. We also have limited management and other resources. Sequoia has an experienced management team and an operating business, which can improve our financial position and provide greater growth opportunities;

- Best Merger Proposal Received. At the time the Merger Agreement was executed, the market check completed by our Board revealed no other firm merger proposals;

- Strategic Alternatives to a Merger. Since we became a shell public company, the Board has reviewed our financial position and considered all available alternatives including, without limitation, the acquisition of a new business or alternatively, the possible dissolution of the Company and liquidation of our assets, the discharge of any remaining liabilities, and the eventual distribution of the remaining assets to stockholders;

- Fairness Opinion. The Board considered the presentation and fairness opinion of Ladenburg, which provided that, as of November 29, 2007, and based upon and subject to the considerations and assumptions set forth in their respective opinions, the Merger Consideration given to members of Sequoia under the Merger Agreement is fair, from a financial point of view, to our stockholders; and

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- Superior Proposals. The Board considered that, under the terms of the Merger Agreement, while we are prohibited from soliciting proposals from third parties, we may engage in discussions and negotiations with, and may furnish non-public information to, a third party that makes an unsolicited superior proposal if, among other things, the Board determines in good faith that such action with respect to such superior proposal is necessary for the Board to comply with its fiduciary duties under applicable law. In addition, the Merger Agreement permits the Board, in the exercise of its fiduciary duties, to withdraw or modify its approval or recommendation of the Merger Agreement or the transactions contemplated therein even if we have not received a superior proposal if it were to subsequently determine that the Merger Agreement and the transactions contemplated therein are no longer in the best interest of the Company or our stockholders. The Board further considered that the terms of the Merger Agreement provide the Board with the ability to terminate the Merger Agreement in order to enter into an agreement for a superior proposal. The Board also considered the possible effect of these provisions of the Merger Agreement on third parties that might be interested in making a proposal to acquire us.

- Potential Benefit of a Combined Company. Sequoia has been in business for several years and has recently signed contracts with some of the largest retailers in the world to carry its products. By completing a merger with Sequoia, we can infuse equity into Sequoia's business to further enhance its products and expand its market position, which may improve stockholder value. However, there can be no assurance that Sequoia's products will receive the widespread market acceptance necessary to sustain profitable operations or that stockholder value will improve in the combined company.

The Board also recognized the risks inherent in the transaction, including:

- the risk that the combined company may not be able to realize, fully or at all, the potential benefits of the Merger;
- the possibility that, even if the Merger is approved by our stockholders, it may not be completed; and
- the other risks described under "Risk Factors" beginning on page 29.

After taking into account all of the factors set forth above, as well as others, the Board agreed that the potential benefits of the Merger (i.e. the benefit of Sequoia's operations, experienced management and growth potential), outweighed the potential risks, determined that the Merger Agreement and the Related Proposals are advisable and are fair to and in the best interests of the Company and its unaffiliated stockholders and approved and adopted the Merger Agreement and recommends that the Company's stockholders vote to approve and adopt the Merger Agreement at the Special Meeting.

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The Board did not assign relative weights to the above factors or the other factors considered by it. In addition, the Board did not reach any specific conclusion on each factor considered, but conducted an overall analysis of these factors. Individual directors may have given different weights to different factors.

Cautionary Statement Concerning Forward-Looking Information

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements based on estimates and assumptions. Forward-looking statements include information concerning possible or assumed future results of operations of the Company, the expected completion and timing of the Merger Agreement and other information relating to the Merger Agreement and Related Proposals. There are forward-looking statements throughout this proxy statement, including, among others, under the headings "Summary," "The Transactions -- Opinion of Ladenburg" and in statements containing the words "believes," "plans," "expects," "anticipates," "intends," "estimates" or similar expressions. You should be aware that forward-looking statements involve known and unknown risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the actual results or developments we anticipate will be realized, or even if realized, that they will have the expected effects on the business or operations of the Company. In addition to other factors and matters contained in this document, we believe the following factors could cause actual results to differ materially from those discussed in the forward-looking statements:

Considerations Relating to the Merger Agreement, Related Proposals and 2008 Plan:

- the failure to satisfy the conditions to consummation of the Merger Agreement, including the receipt of stockholder approval;
- the failure to receive stockholder approval of the Related Proposals and the 2008 Plan;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement;
- the failure of the Merger to close for any other reason;
- the outcome of legal proceedings that may be instituted against us and others in connection with the Merger Agreement; and
- the amount of the costs, fees, expenses and charges related to the Merger.

Other Factors:

- risks, uncertainties and factors set forth in our reports and documents filed with the Securities and Exchange Commission (the "SEC") (which reports and documents should be read in conjunction with this proxy statement; see "Where You Can Find Additional Information").

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All forward-looking statements contained or incorporated by reference in the proxy statement speak only as of the date of this proxy statement or as of such earlier date that those statements were made and are based on current expectations or expectations as of such earlier date and involve a number of assumptions, risks and uncertainties that could cause the actual result to differ materially from such forward-looking statements. Except as required by law, we undertake no obligation to update or publicly release any revisions to these forward-looking statements or reflect events or circumstances after the date of this proxy statement.

Risk Factors

Risks Related to the Merger Agreement and the Related Proposals

The Merger will result in substantial dilution of the ownership interest of current stockholders.

Immediately following the Merger, our stockholders will own approximately 20% of the Company's outstanding Common Stock on a nondiluted basis. This represents substantial dilution of the ownership interest of current stockholders.

Failure to complete the Merger could cause our stock price to decline and could harm our future business and operations.

The Merger Agreement contains conditions that we must meet in order to consummate the Merger. In addition, the Merger Agreement may be terminated by either us or Sequoia under certain circumstances. If the Merger is not completed for any reason, we may be subject to a number of risks, including the following:

- depending on the reasons for termination, we may be required to pay a termination fee of $1,000,000 to Sequoia if we have selected a superior proposal;

- the market price of our Common Stock may decline to the extent that the current market price reflects a market assumption that the Merger and the Related Proposals will be completed; and

- many costs related to the Merger and the Related Proposals, such as legal, accounting, financial advisor and financial printing fees, have to be paid regardless of whether the Merger is completed;

Ladenburg did not review the terms of the amendment to the Merger Agreement and there can be no assurance that its fairness opinion is not affected by such amendment.

On March 31, 2008, we amended the Merger Agreement to, among other things, (i) effect a 1-for-2 reverse stock split instead of a 1-for-3 reverse stock split, (ii) provide that, immediately prior to the effectiveness of the Merger, we will declare and pay to our stockholders existing as of the Record Date, the Dividend instead of distributing to stockholders common stock of a newly formed company with approximately $2.2 million in cash and shares of stock of a private company that were to be transferred to it by the Company, (iii) amend the amount of the proposed Merger Consideration to be provided under the Merger Agreement, such that each issued and outstanding Sequoia equity interest will automatically be converted into the right to receive 0.87096285 shares of our Common Stock instead of the right to receive 0.5806419 shares of our Common Stock, which adjustment was made to account for the change from a 1-for-3 reverse stock split to a 1-for-2 reverse stock split, and (iv) remove the closing condition that we have not less than $9.8 million in net cash or cash equivalents.

The Board approved the amendment to the Merger Agreement to provide for a 1-for-2 reverse stock split instead of a 1-for-3 reverse stock split primarily to ensure sufficient shares were available in the public float to help avoid large pricing fluctuations. The Merger Consideration was adjusted as a result of the change from a 1-for-3 reverse stock split to a 1-for-2 reverse stock split to provide for no change to the respective equity ownership levels following the Merger. The Board also approved the amendment to provide the Dividend of approximately $2.0 million, an amount slightly less than originally contemplated by the Merger Agreement, because it believed (i) this small reduction in distribution was advisable in exchange for the removal of the closing condition that we have not less than $9.8 million in net cash or cash equivalents, and (ii) the dividend mechanic was more feasible than a distribution of stock.

Ladenburg has not reviewed our amendment to the Merger Agreement. Although our Board believes the amendment to the Merger Agreement does not materially impact Ladenburg's fairness opinion, which was issued on November 29, 2007, there can be no assurance that Ladenburg's opinion, that the Merger Consideration given to members of Sequoia is fair, from a financial point of view, to our stockholders, is still accurate.

The Reverse Stock Split may not increase the market price of our Common Stock by a multiple we expect.

While we expect that the Reverse Stock Split will result in an increase in the market price of our Common Stock, there can be no assurance that the Reverse Stock Split will increase the market price of our Common Stock by a multiple equal to the exchange number or result in the permanent increase in the market price (which is dependent on many factors, including our performance and prospects). Also, should the market price of our Common Stock decline, the percentage decline as an absolute number and as a percentage of our overall market capitalization may be greater than would pertain in the absence of a reverse stock split.

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The Reverse Stock Split may increase our number of odd lot stockholders.

The Reverse Stock Split may increase the number of our stockholders who own odd lots (owners of less than 100 shares). Stockholders who hold odd lots typically will experience an increase in the cost of selling their shares as well as possible greater difficulty in effecting such sales.

Risks Related to Sequoia's Business, which will be our primary business following the Merger

Since Sequoia's inception, it has been spending more than it makes which has required it to rely upon outside financings to fund operations. If Sequoia is not able to generate sufficient revenues to fund its business plans, Sequoia may be required to limit operations.

Since Sequoia's inception Sequoia has operated at a loss. Sequoia is not currently generating sufficient revenues to cover its operating expenses. If its revenues do not begin to grow or if they decline and its expenses do not slow or decline at a greater rate Sequoia may be unable to generate positive cash flows. If Sequoia is unable to generate positive cash flow from operations Sequoia will be required to seek outside financing to continue operating at its current level or cease operations. If new sources of financing are required, but are insufficient or unavailable, Sequoia will be required to modify its growth and operating plans to the extent of available funding, which would harm its ability to pursue our business plans. If Sequoia ceases or stops operations, its members could lose their entire investment. Historically, Sequoia has funded its operating, administrative and development costs through the sale of equity capital or debt financing. If Sequoia's plans and/or assumptions change or prove inaccurate, or Sequoia is unable to obtain further financing, or such financing and other capital resources, in addition to projected cash flow, if any, prove to be insufficient to fund operations, Sequoia's continued viability could be at risk. To the extent that any such financing involves the sale of Sequoia's membership interests, the interests of Sequoia's then existing members could be substantially diluted. The holders of new membership interests of Sequoia may also have rights, preferences or privileges which are senior to those of Sequoia's existing members. There is no assurance that Sequoia will be successful in achieving any or all of these objectives over the coming year.

Sequoia anticipates its business will become highly seasonal in nature which may cause its financial results to vary significantly by quarter.

The photo retail business is very seasonal in nature with a significant proportion of recurring revenues occurring the fourth quarter of the calendar year, particularly around the Thanksgiving and Christmas holidays. As a result, Sequoia's financial results will be difficult to compare quarter-to-quarter. Additionally, any disruptions in operations during the fourth quarter could greatly impact its annual revenues and have a significant adverse effect on its relationships with its customers. Sequoia's limited revenue and operating history makes it difficult for it to assess the impact of seasonal factors on its business or whether its business is susceptible to cyclical fluctuations in the economy.

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Sequoia's technology solutions and business approach are relatively new and if they are not accepted in the marketplace, its business could be materially and adversely affected.

Products created with Sequoia's technology have only been available in the marketplace since 2005. Sequoia has been pursuing a business model that requires retail and vendor partners to recognize the advantages of its technology to make it available to end consumers. Having generated limited revenues, there can be no assurance that Sequoia's products will receive the widespread market acceptance necessary to sustain profitable operations. Even if its services attain widespread acceptance, there can be no assurance that Sequoia will be able to meet the demands of its customers on an ongoing basis. Sequoia's operations may be delayed, halted, or altered for any of the reasons set forth in these risk factors and other unknown reasons. Such delays or failure would seriously harm Sequoia's reputation and future operations. If Sequoia's products or its business model are not accepted in the market place, its business could be materially and adversely affected.

Sequoia's product solution focuses on an aspect of the digital photo industry that has never been directly addressed in any meaningful way. Sequoia provides a nearly finished product that takes user images and combines them with stock images to create context for user images in a themed presentation. Sequoia also offers a unique DVD product that has not been widely sold in the marketplace in the form it offers. The degree of market acceptance of Sequoia's product solution results in Sequoia's products going to the market with a high level of uncertainty and risk. As the market for its product technology is new and evolving, it is difficult to predict the size of the market, the future growth rate, if any, or the level of premiums the market will pay for Sequoia's services. There can be no assurance that the market for Sequoia's services will emerge to a profitable level or be sustainable. There can be no assurance that any increase in marketing and sales efforts will result in a larger market or increase in market acceptance for Sequoia's services. If the market fails to develop, develops more slowly than expected or becomes saturated with competitors, or if Sequoia's proposed services do not achieve or sustain market acceptance, Sequoia's proposed business, results of operations and financial condition will continue to be materially and adversely affected.

Ultimately, Sequoia's success will depend upon consumer acceptance of its product delivery model and its largely pre-configured products. Sequoia relies on its retail and internet vending customers to market its products to end consumers. While Sequoia assists retailers with their marketing programs, Sequoia cannot assure that retailers will continue to market its services or that their marketing efforts will be successful in attracting and retaining end user consumers. The failure to attract end user consumers will adversely affect Sequoia's business. In addition, if Sequoia's service does not generate revenue for the retailer, whether because of failure to market it, Sequoia may lose retailers as customers, which would adversely affect its revenue.

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Sequoia has for the past few years depended on a single customer for a significant portion of its revenue. If Sequoia is unable to replace that customer and add additional customers it could materially harm its operating results, business, and financial condition.

During 2004, 2005, 2006, and 2007, over 90% of Sequoia's revenue was derived from a single customer, BigPlanet. Sequoia's contract with BigPlanet expired on December 31, 2007. Sequoia is in negotiations to continue its business relationship with BigPlanet, but it can provide no assurance that it will enter into a new agreement or what the terms of the new agreement will be. Sequoia added several additional customer contracts during 2007, but they have not generated significant revenues to date. If in the event Sequoia is unable to replace the revenues generated from BigPlanet and increase the revenues for current customers and enter into additional agreements with additional customers that generate revenue, Sequoia's operations and financial results will significantly suffer, jeopardizing long-term operations. Sequoia may not succeed in attracting new customers, as many of its potential customers have pre-existing relationships with Sequoia's current or potential competitors. To attract new customers, Sequoia may be faced with intense price competition, which may affect its gross margins.

Sequoia needs to develop and introduce new and enhanced products in a timely manner to remain competitive.

The markets in which Sequoia operates are characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and relatively short product lives. The pursuit of necessary technological advances and the development of new products require substantial time and expense. To compete successfully in the markets in which Sequoia operates, Sequoia must develop and sell new or enhanced products that provide increasingly higher levels of performance and reliability. For example, Sequoia's business involves new digital audio and video formats, such as DVD-Video and DVD-Audio, and, more recently, the new recordable DVD formats including DVD-RAM, DVD-R/RW, and DVD+RW. Currently, there is extensive activity in Sequoia's industry targeting the introduction of new, high definition formats including Blue Ray®. To the extent that competing new formats remain incompatible, consumer adoption may be delayed and Sequoia may be required to expend additional resources to support multiple formats. Sequoia expends significant time and effort to develop new products in compliance with these new formats. To the extent there is a delay in the implementation or adoption of these formats, Sequoia's business, financial condition and results of operations could be adversely affected. As new industry standards, technologies and formats are introduced, there may be limited sources for the intellectual property rights and background technologies necessary for implementation, and the initial prices that Sequoia may negotiate in an effort to bring its products to market may prove to be higher than those ultimately offered to other licensees, putting Sequoia at a competitive disadvantage. Additionally, if these formats prove to be unsuccessful or are not accepted for any reason, there will be limited demand for Sequoia's products. Sequoia cannot assure you that the products it is currently developing or intend to develop will achieve feasibility or that even if it is successful, the developed product will be accepted by the market. Sequoia may not be able to recover the costs of existing and future product development and its failure to do so may materially and adversely impact its business, financial condition and results of operations.

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If Sequoia is unable to respond to customer technological demands and improve its products, its business could be materially and adversely affected.

To remain competitive, Sequoia must continue to enhance and improve the responsiveness, functionality and features of its solutions and its products. The photo industry is characterized by rapid technological change, changes in user and customer requirements and preferences and frequent new product and service introductions. Sequoia's success will depend, in part, on its ability to license leading technologies useful in its business, enhance its existing software offerings, develop new product offerings and technology that address the varied needs of its existing and prospective customers and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. There can be no assurance that Sequoia will successfully implement new technologies or adapt its solutions, products, proprietary technology and transaction-processing systems to customer requirements or emerging industry standards. If Sequoia is unable to adapt in a timely manner in response to changing market conditions or customer requirements for technical, legal, financial or other reasons, its business could be materially adversely affected.

Sequoia has and expects to continue to experience rapid growth. If it is unable to manage its growing operations effective, Sequoia's business could be negatively impacted.

Expected rapid growth in all areas of Sequoia's business may place a significant strain on its operational, human, and technical resources. Sequoia expects that operating expenses and staffing levels will increase in the future to keep pace with its customer demands and requirements. To manage its growth, Sequoia must expand its operational and technical capabilities and manage its employee base, while effectively administering multiple relationships with various third parties, including business partners and affiliates. Sequoia cannot assure that it will be able to effectively manage its growth. The failure to effectively manage its growth could result in an inability to meet its customer demands, leading to customer dissatisfaction and loss. Loss of customers could negatively impact Sequoia's operating results.

Sequoia competes with others who provide products comparable to its products. If Sequoia is unable to compete with current and future competitors, its business could be materially and adversely affected.

The digital photography products and services industries are intensely competitive, and Sequoia expects competition to increase in the future as current competitors improve their offerings, new participants enter the market or industry consolidation further develops. Competition may result in pricing pressures, reduced profit margins or loss of market share, any of which could substantially harm Sequoia's business and results of operations. Sequoia's success is dependent upon its ability to maintain its current customers and obtain additional customers. Digital image services are provided by a wide range of companies. Competitors in the market for the provision of digital imaging services include Snapfish (a Hewlett-Packard service), Pixology plc, LifePics, and Shutterfly among numerous others. In addition, end consumers have a wide variety of product choices such as prints, photo books, calendars, and other print and image products. Sequoia competes for photo imaging output dollars with its DVD and other product offerings. Internet portals and search engines such as Yahoo!, AOL and Google also offer digital photography solutions, and home printing solutions offered by Hewlett Packard, Lexmark, Epson, Canon and others. Most of Sequoia's competitors have longer operating histories, significantly greater financial, technical and marketing resources, greater name and product recognition, and larger existing customer bases. Although Sequoia has been able to enter into relationships with many potential competitors, it cannot provide any assurance its relationships will continue or that its competitors will not pursue their own product solutions that Sequoia currently provides to them. With the large and varied competitors and potential competitors in the marketplace, Sequoia cannot be certain that it will be able to compete successfully against current and future competitors. If Sequoia is unable to do so, it will have a material adverse effect on its business, results of operations and financial condition.

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Sequoia relies on its ability to download software and fulfill orders for its customers. If Sequoia is unable to maintain reliability of its network solution it may lose both present and potential customers.

Sequoia's ability to attract and retain customers depends on the performance, reliability and availability of its services and fulfillment network infrastructure. Sequoia may experience periodic service interruptions caused by temporary problems in its own systems or software or in the systems or software of third parties upon whom it relies to provide such service. Fire, floods, earthquakes, power loss, telecommunications failures, break-ins and similar events could damage these systems and interrupt Sequoia's services. Computer viruses, electronic break-ins or other similar disruptive events also could disrupt its services. System disruptions could result in the unavailability or slower response times of the websites Sequoia hosts for its customers, which would lower the quality of the consumers' experiences. Service disruptions could adversely affect its revenues and, if they were prolonged, would seriously harm its business and reputation. Sequoia does not carry business interruption insurance to compensate for losses that may occur as a result of these interruptions. Sequoia's customers depend on Internet service providers and other website operators for access to its systems. These entities have experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to Sequoia's systems. Moreover, the Internet network infrastructure may not be able to support continued growth. Any of these problems could adversely affect Sequoia's business.

The infrastructure relating to Sequoia's services are vulnerable to unauthorized access, physical or electronic computer break-ins, computer viruses and other disruptive problems. Internet service providers have experienced, and may continue to experience, interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees and others. Anyone who is able to circumvent Sequoia's security measures could misappropriate proprietary information or cause interruptions in its operations. Security breaches relating to its activities or the activities of third-party contractors that involve the storage and transmission of proprietary information could damage its reputation and relationships with its customers and strategic partners. Sequoia could be liable to its customers for the damages caused by such breaches or it could incur substantial costs as a result of defending claims for those damages. Sequoia may need to expend significant capital and other resources to protect against such security breaches or to address problems caused by such breaches. Security measures taken by Sequoia may not prevent disruptions or security breaches.

Sequoia relies on third parties for the development and maintenance of photo kiosks and backend Internet connections to reach its customers and such dependence on third parties may impair its ability to generate revenues.

Sequoia's business relies on the use of third party photo kiosks and Internet systems and connections as a convenient means of consumer interaction and commerce. The success of Sequoia's business will depend on the ability of its customers to use such third party photo kiosks and Internet systems and connections without significant delays or aggravation. As such, Sequoia relies on third parties to develop and maintain reliable photo kiosks and to provide Internet connections having the necessary speed, data capacity and security, as well as the timely development of complementary products such as high-speed modems, to ensure its customers have reliable access to its services. The failure of Sequoia's customer photo kiosk providers and the Internet to achieve these goals may reduce its ability to generate significant revenue.

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Sequoia's penetration of a broader consumer market will depend, in part, on continued proliferation of high speed Internet access for customers using kiosk and vendors providing its software and products via the Internet. The Internet has experienced, and is likely to continue to experience, significant growth in the number of users and amount of traffic. As the Internet continues to experience increased numbers of users, increased frequency of use and increased bandwidth requirements, the Internet infrastructure may be unable to support the demands placed on it. In addition, increased users or bandwidth requirements may harm the performance of the Internet. The Internet has experienced a variety of outages and other delays and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the level of traffic, and could result in the Internet becoming an inconvenient or uneconomical source of products and services, which would cause Sequoia's revenue to decrease. The infrastructure and complementary products or services necessary to make the Internet a viable commercial marketplace for the long term may not be developed successfully or in a timely manner.

Sequoia has relied upon its ability to produce products with its proprietary technology to establish customer relationships. If Sequoia is unable to protect and enforce its intellectual property rights, Sequoia may suffer a loss of business.

Sequoia's success and ability to compete depends, to a large degree, on its current technology and, in the future, technology that it might develop or license from third parties. To protect its technology, Sequoia has used the following: confidentiality agreements, retention and safekeeping of source codes, and duplication of such for backup. Despite these precautions, it may be possible for unauthorized third parties to copy or otherwise obtain and use Sequoia's technology or proprietary information. In addition, effective proprietary information protection may be unavailable or limited in certain foreign countries. Litigation may be necessary in the future to: enforce its intellectual property rights, protect its trade secrets, or determine the validity and scope of the proprietary rights of others. Such misappropriation or litigation could result in substantial costs and diversion of resources and the potential loss of intellectual property rights, which could impair Sequoia's financial and business condition. Although currently Sequoia is not engaged in any form of litigation proceedings in respect to the foregoing, in the future, Sequoia may receive notice of claims of infringement of other parties' proprietary rights. Such claims may involve internally developed technology or technology and enhancements that Sequoia may license from third parties. Moreover, although Sequoia sometimes may be indemnified by third parties against such claims related to technology that Sequoia has licensed, such infringements against the proprietary rights of others and indemnity there from may be limited, unavailable, or, where the third party lacks sufficient assets or insurance, ineffectual. Any such claims could require Sequoia to spend time and money defending against them, and, if they were decided adversely to Sequoia, could cause serious injury to its business operations.

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The future success of Sequoia's business depends on continued consumer adoption of digital photography.

Sequoia's growth is highly dependent upon the continued adoption by consumers of digital photography. The digital photography market is rapidly evolving, characterized by changing technologies, intense price competition, additional competitors, evolving industry standards, frequent new service announcements and changing consumer demands and behaviors. To the extent that consumer adoption of digital photography does not continue to grow as expected, Sequoia's revenue growth would likely suffer. Moreover, Sequoia faces significant risks that, if the market for digital photography evolves in ways that Sequoia is not able to address due to changing technologies or consumer behaviors, pricing pressures, or otherwise, its current products and services may become unattractive, which would likely result in the loss of customers and a decline in net revenues and/or increased expenses.

Other companies' intellectual property rights may interfere with Sequoia's current or future product development and sales.

Sequoia has not conducted routine comprehensive patent search relating to its business models or the technology it uses in its products or services. There may be issued or pending patents owned by third parties that relate to Sequoia's business models, products or services. If so, Sequoia could incur substantial costs defending against patent infringement claims or it could even be blocked from engaging in certain business endeavors or selling its products or services. Other companies may succeed in obtaining valid patents covering one or more of Sequoia's business models or key techniques Sequoia utilizes in its products or services. If so, Sequoia may be forced to obtain required licenses or implement alternative non-infringing approaches. Sequoia's products are designed to adhere to industry standards, such as DVD-ROM, DVD-Video, DVD-Audio and MPEG video. A number of companies and organizations hold various patents that claim to cover various aspects of DVD, MPEG and other relevant technology. Sequoia has entered into license agreements with certain companies and organizations relative to some of these technologies. Such license agreements may not be sufficient in the future to grant Sequoia all of the intellectual property rights necessary to market and sell its products.

Sequoia's products rely upon the use of copyrighted materials that it licenses and its inability to obtain needed licenses, remain compliant with existing license agreements, or effectively account for and pay royalties to third parties could substantially limit product development and deployment.

Sequoia's products incorporate copyrighted materials in the form of pictures, video, audio, music, and fonts. Sequoia actively monitors the use of all copyrighted materials and pays up-front and usage royalties as it fulfills customer orders for products. If Sequoia were unable to maintain appropriate licenses for copyrighted works, it would be required to limit its product offerings, which would negatively impact its revenues. Sequoia also seeks to license popular works to build into its products and the photo merchandizing market is extremely competitive. In the event Sequoia is unable to license works because its technology is not competitive or it has inadequate capital to pay royalties, it may not be able to effectively compete for photo-product production business which would seriously impart its ability to sell products.

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Sequoia could be liable to some of its customers for damages that they incur in connection with intellectual property claims.

Sequoia has exposure to potential liability arising from infringement of third-party intellectual property rights in its license agreements with customers. If Sequoia is required to pay damages to or incur liability on behalf of its customers, its business could be harmed. Moreover, even if a particular claim falls outside of Sequoia's indemnity or warranty obligations to its customers, its customers may be entitled to additional contractual remedies against it, which could harm Sequoia's business. Furthermore, even if Sequoia is not liable to its customers, its customers may attempt to pass on to it the cost of any license fees or damages owed to third parties by reducing the amounts they pay for its products. These price reductions could harm Sequoia's business.

Legislation regarding copyright protection or content interdiction could impose complex and costly constraints on Sequoia's business model.

Because of its focus on automation and high volumes, Sequoia's operations do not involve, for the vast majority of its sales, any human-based review of content. Although use of its software technology terms of use specifically require customers to represent that they have the right and authority to reproduce the content they provide and that the content is in full compliance with all relevant laws and regulations, Sequoia does not have the ability to determine the accuracy of these representations on a case-by-case basis. There is a risk that a customer may supply an image or other content that is the property of another party used without permission, that infringes the copyright or trademark of another party, or that would be considered to be defamatory, pornographic, hateful, racist, scandalous, obscene or otherwise offensive, objectionable or illegal under the laws or court decisions of the jurisdiction where that customer lives. There is, therefore, a risk that customers may intentionally or inadvertently order and receive products from Sequoia that are in violation of the rights of another party or a law or regulation of a particular jurisdiction. If Sequoia should become legally obligated in the future to perform manual screening and review for all orders destined for a jurisdiction, Sequoia will encounter increased production costs or may cease accepting orders for shipment to that jurisdiction which could substantially harm its business and results of operations.

The loss of any of Sequoia's executive officers, key personnel, or contractors would likely have an adverse effect on its business.

Sequoia's greatest resource in developing and launching its products is its labor. Sequoia is dependent upon its management, employees, and contractors for meeting its business objectives. In particular, the original founders and members of the senior management team play key roles in Sequoia's business and technical development. Sequoia does not carry key man insurance coverage to mitigate the financial effect of losing the services of any of these key individuals. Sequoia's loss of any of these key individuals most likely would have an adverse effect on its business.

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If the collocation facility where much of Sequoia's Internet computer and communications hardware is located fails, its business and results of operations would be harmed. If Sequoia's Internet service to its primary business office fails, its business relationships could be damaged.

Sequoia's ability to provide its services depends on the uninterrupted operation of its computer and communications systems. Much of its computer hardware necessary to operate its Internet service for downloading software and receiving customer orders is located at a single third party hosting facility in Salt Lake City, Utah. Sequoia's systems and operations could suffer damage or interruption from human error, fire, flood, power loss, telecommunications failure, break-ins, terrorist attacks, acts of war and similar events. Sequoia does have some redundant systems in multiple locations, but if its primary location suffers interruptions its ability to service customers quickly and efficiently will suffer.

Sequoia's technology may contain undetected errors that could result in limited capacity or an interruption in service.

The development of Sequoia's software and products is a complex process that requires the services of numerous developers. Sequoia's technology may contain undetected errors or design faults that may cause its services to fail and result in the loss of, or delay in, acceptance of its services. If the design fault leads to an interruption in the provision of Sequoia's services or a reduction in the capacity of its services, Sequoia would lose revenue. In the future, Sequoia may encounter scalability limitations that could seriously harm its business.

Sequoia may divert its resources to develop new product lines, which may result in changes to its business plan and fluctuations in its expenditures.

As Sequoia has developed its technology, customers have required Sequoia to develop various means of deploying its products. In order to remain competitive and work around deployment issues inherent in working with third party kiosk providers, Sequoia is continually developing new deployments and product lines. Sequoia recently developed a new point-of-scan product to provide customers with an alternative to getting its products from retail kiosks that are sometimes busy or out of order. The development of new product types may result in increased expenditures during the development and implementation phase, which could negatively impact Sequoia's results of operations. In addition, Sequoia is a small company with limited resources and diverting these resources to the development of new product lines may result in reduced customer service turn around times and delays in deploying new customers. These delays could adversely affect Sequoia's business and results of operations.

Sequoia may undertake acquisitions to expand its business, which may pose risks to its business and dilute the ownership of existing members.

The digital photo industry is undergoing significant changes. As Sequoia pursues its business plans, Sequoia may pursue acquisitions of businesses, technologies, or services. Sequoia is unable to predict whether or when any prospective acquisition will be completed. Integrating newly acquired businesses, technologies or services is likely to be expensive and time consuming. To finance any acquisitions, it may be necessary to raise additional funds through public or private financings. Additional funds may not be available on favorable terms and, in the case of equity financings, would result in additional dilution to Sequoia's existing members. If Sequoia does acquire any businesses, if Sequoia is unable to integrate any newly acquired entities, technologies or services effectively, its business and results of operations may suffer. The time and expense associated with finding suitable and compatible businesses, technologies, or services could also disrupt Sequoia's ongoing business and divert management's attention. Future acquisitions by Sequoia could result in large and immediate write-offs or assumptions of debt and contingent liabilities, any of which could substantially harm its business and results of operations.

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Requirements under client agreements and Sequoia’s method of delivering products could cause the deferral of revenue recognition, which could harm its operating results and adversely impact its ability to forecast revenue.

Sequoia’s agreements with clients provide for various methods of delivering its technology capability to end consumers and may include service and development requirements in some instances. As Sequoia provides point-of-scan products that require future fulfillment of products by it, Sequoia may be required to defer revenue recognition until the time the consumer submits an order to have a product fulfilled rather than at the time our point-of-scan product is sold. In addition, if Sequoia is obligated to provide development and support services to customers, it may be required to defer certain revenues to future periods which could harm its short-term operating results and adversely impact its ability to accurately forecast revenue.

Sequoia’s pricing model may not be accepted and its product prices may decline, which could harm its operating results.

Under its current business model, Sequoia charges a royalty on each product produced using its technology rather than selling software to its customers. If Sequoia’s customers are offered software products to purchase that do not require the payment of royalties, Sequoia’s business could suffer. Additionally the market for photo products is intensely competitive. It is likely that prices Sequoia’s customers charge end consumers will decline due to competitive pricing pressures from other software providers which will likely affect Sequoia’s product royalties and revenues.

Sequoia depends on third-party suppliers for media components of some of its products and any failure by them to deliver these components could limit its ability to satisfy customer demand.

Sequoia currently sources DVD media and other components for use in its products from various sources. Sequoia does not carry significant inventories of these components and it has no guaranteed supply agreements for them. Sequoia may in the future experience shortages of some product components, which can have a significant negative impact on its business. Any interruption in the operations of Sequoia’s vendors of sole components could affect adversely its ability to meet its scheduled product deliveries to customers. If Sequoia is unable to obtain a sufficient supply of components from its current sources, it could experience difficulties in obtaining alternative sources or in altering product designs to use alternative components. Resulting delays or reductions in product shipments could damage customer relationships and expose Sequoia to potential damages that may arise from its inability to supply its customers with products. Further, a significant increase in the price of one or more of these components could harm Sequoia’s gross margins and/or operating results.

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Sequoia relies on sales representatives and retailers to sell its products, and disruptions to these channels would affect adversely its ability to generate revenues from the sale of its products.

A large portion of Sequoia's projected revenues is derived from sales of products to end-users via retail channels that it accesses directly and through a third party network of sales representatives. If Sequoia's relationship with its sales representatives is disrupted for any reason, its relationship with its retail customers could suffer. If Sequoia's retail customers do not choose to market its products in their stores, Sequoia's sales will likely be significantly impacted and its revenues would decrease. Any decrease in revenue coming from these retailers or sales representatives and Sequoia's inability to find a satisfactory replacement in a timely manner could affect its operating results adversely. Moreover, Sequoia's failure to maintain favorable arrangements with its sales representative may impact adversely its business.

Changes in financial accounting standards or practices may cause adverse unexpected financial reporting fluctuations and affect Sequoia's reported results of operations.

A change in accounting standards or practices can have a significant effect on Sequoia's reported results and may even affect its reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect Sequoia's reported financial results or the way it conducts its business.

Sequoia is vulnerable to acts of God, labor disputes, and other unexpected events.

Sequoia's corporate business office is located in the Salt Lake City, Utah area near the major freeway running north and south through Utah. The Salt Lake valley is also a known seismic zone. A chemical or hazardous material spill or accident on the freeway or an earthquake or other disaster could result in an interruption in Sequoia's business. Sequoia's business also may be impacted by labor issues related to its operations and/or those of its suppliers or customers. Such an interruption could harm Sequoia's operating results. Sequoia is not likely to have sufficient insurance to compensate adequately for losses that Sequoia may sustain as a result of any natural disasters, labor disputes or other unexpected events.

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Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by Sequoia to comply with these regulations could substantially harm its business and results of operations.

Sequoia is subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, restrictions on imports and exports, customs, tariffs, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, broadband residential Internet access and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet and e-commerce as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. Those laws that do reference the Internet are only beginning to be interpreted by the courts and their applicability and reach are therefore uncertain. For example, the Digital Millennium Copyright Act, or DMCA, is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party websites that include materials that infringe copyrights or other rights of others. Portions of the Communications Decency Act, or CDA, are intended to provide statutory protections to online service providers who distribute third-party content. Sequoia relies on the protections provided by both the DMCA and CDA in conducting its business. Any changes in these laws or judicial interpretations narrowing their protections will subject Sequoia to greater risk of liability and may increase its costs of compliance with these regulations or limit our ability to operate certain lines of business. The Children’s Online Protection Act and the Children’s Online Privacy Protection Act are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the interpretation of them. Further, any failures on Sequoia’s part to comply with these regulations may subject it to significant liabilities. Those current and future laws and regulations or unfavorable resolution of these issues may substantially harm Sequoia’s business and results of operations.

Sequoia’s failure to protect the confidential information of its customers against security breaches and the risks associated with credit card fraud could damage its reputation and brand and substantially harm its business and results of operations.

A significant prerequisite to online commerce and communications is the secure transmission of confidential information over public networks. Sequoia’s failure to prevent security breaches could damage its reputation and brand and substantially harm its business and results of operations for customers using online services. Sequoia relies on encryption and authentication technology licensed from third parties to effect the secure transmission of confidential customer information, including credit card numbers, customer mailing addresses and email addresses. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by Sequoia to protect customer transaction data. In addition, any party who is able to illicitly obtain a user’s password could access the user’s transaction data or personal information. Any compromise of Sequoia’s security could damage its reputation and brand and expose it to a risk of loss or litigation and possible liability, which would substantially harm its business and results of operations. In addition, anyone who is able to circumvent Sequoia’s security measures could misappropriate proprietary information or cause interruptions in its operations. Sequoia may need to devote significant resources to protect against security breaches or to address problems caused by breaches.

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Effects of the Merger

In connection with the Merger, our stockholders, prior to the effective date of the Merger, will receive the Dividend. Immediately following the Merger, members of Sequoia will own, in the aggregate, approximately 80% of our Common Stock on a nondiluted basis, or approximately 38,899,018 post-split shares of our Common Stock and our current stockholders will own approximately 20% of the Company's outstanding Common Stock on a nondiluted basis. Although this represents substantial dilution of the percentage ownership interest of current stockholders, we will receive the benefit of Sequoia's operations. We believe Sequoia has an equity value in the range of $40.2 million to $62.8 million, which upon consummation of the Merger will increase the value of Secure Alliance significantly. Following the Merger, we will have a total of 48,619,680 shares of Common Stock outstanding.

The Merger will fundamentally change our company from a public shell company with substantially no operations since October 2006 to an operating company with all of Sequoia's assets, business and operations. In addition, Sequoia will control our management and Board. Upon completion of the Merger, Jerrell G. Clay, our Chief Executive Officer, and Stephen P. Griggs, our President, Chief Operating Officer, Principal Financial Officer and Secretary, will resign as officers of the Company, but will remain directors on our Board. Following the merger, Sequoia's officers and members of its Board of Managers will become our officers and directors. If the Related Proposals are approved and implemented, we will change our name and trading symbol and move our corporate headquarters to Utah. We will also effect the Reverse Stock Split and increase the number of shares of our authorized capital stock.

If the Merger Agreement is not approved and the Merger is not completed, our business may be adversely affected. The market price of our Common Stock may decline to the extent that the current market price reflects a market assumption that the Merger and the Related Proposals will be completed and many costs related to the Merger and the Related Proposals, such as legal, accounting, financial advisor and financial printing fees, have to be paid regardless of whether the Merger is completed.

Interests of our Directors and Executive Officers in the Merger

On March 21, 2007, we granted each of Jerrell G. Clay, currently a director and the Chief Executive Officer of the Company, and Stephen P. Griggs, currently a director and Principal Financial Officer, Chief Operating Officer and President of the Company, options under our 1997 Long-Term Incentive Plan to purchase 950,000 shares of Common Stock at an exercise price of $0.62 per share. Pursuant to the terms of the 1997 Long Term Incentive Plan if the Merger is consummated, all options granted thereunder will become fully vested.

Opinion of Ladenburg

On November 29, 2007, Ladenburg delivered its presentation to the Board and subsequently delivered its written opinion to the Board, which stated that based upon and subject to the assumptions made, matters considered, and limitations on its review as set forth in the opinion, the Merger Consideration given to members of Sequoia under the Merger Agreement is fair, from a financial point of view, to our stockholders. The Ladenburg opinion was based on a reverse stock split of 1-for-3 and the Merger Consideration of 0.5806419 shares of our Common Stock. Subsequently, we amended the Merger Agreement to provide for, among other things, a Reverse Stock Split of 1-for-2 with a corresponding change to the Merger Consideration and the distribution of a cash Dividend instead of distributing stock of a newly formed subsidiary with certain enumerated assets that were to be contributed to it by the Company. Ladenburg has not reviewed the amendment to the Merger Agreement. Although our Board believes the amendment to the Merger Agreement does not materially impact Ladenburg's fairness opinion, there can be no assurance that Ladenburg's opinion is still accurate. The full text of the written opinion of Ladenburg is attached as Annex B and is incorporated by reference into this proxy statement.

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You are urged to read the Ladenburg opinion carefully and in its entirety for a description of the assumptions made, matters considered, procedures followed and limitations on the review undertaken by Ladenburg in rendering its opinion. The summary of the Ladenburg opinion set forth in this proxy statement is qualified by reference to the full text of the opinion.

The Ladenburg opinion is for the use and benefit of our Board in connection with its consideration of the Merger and is not intended to be and does not constitute a recommendation to you as to how you should vote or proceed with respect to the Merger.

Ladenburg was not requested to opine as to, and the opinion does not in any manner address, the relative merits of the Merger as compared to any alternative business strategy that might exist for us, our underlying business decision to proceed with or effect the Merger, and other alternatives to the Merger that might exist for us. Ladenburg does not express any opinion as to the underlying valuation or future performance of us or Sequoia or the price at which our securities might trade at any time in the future.

In arriving at its opinion, Ladenburg took into account an assessment of general economic, market and financial conditions, as well as its experience in connection with similar transactions and securities valuations generally. In so doing, among other things, Ladenburg:

- Reviewed the Merger Agreement;
- Reviewed publicly available financial information and other data with respect to Secure Alliance that Ladenburg deemed relevant, including the Company's Annual Report on Form 10-K for the year ended September 30, 2006, and the Company's Quarterly Report on Form 10-Q for the nine months ended June 20, 2007;
- Reviewed non-public information and other data with respect to the Company, including unaudited balance sheet statements as of September 30, 2007, and other internal financial information and management reports;
- Reviewed non-public information and other data with respect to Sequoia, including unaudited financial statements for the two years ended December 31, 2006 and for the nine months ended September 30, 2007, financial projections for the four years ending December 31, 2011, and other internal financial information and management reports;

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- Reviewed and analyzed the Merger's pro forma impact on our securities outstanding and stockholder ownership;
- Considered the historical financial results and present financial condition of the Company and Sequoia;
- Reviewed and compared the trading of, and the trading market for our Common Stock;
- Reviewed and analyzed the indicated value range of the consideration implied by the Merger Consideration;
- Reviewed and analyzed Sequoia's projected unlevered free cash flows and prepared a discounted cash flow analysis;
- Reviewed and analyzed certain financial characteristics of publicly-traded companies that were deemed to have characteristics comparable to Sequoia;
- Reviewed and analyzed certain financial characteristics of target companies in transactions where such target company was deemed to have characteristics comparable to that of Sequoia;
- Reviewed and discussed with management representatives of the Company and Sequoia certain financial and operating information furnished by them, including financial projections and analyses with respect to Sequoia's business and operations; and
- Performed such other analyses and examinations as were deemed appropriate.

In arriving at its opinion, Ladenburg relied upon and assumed the accuracy and completeness of all of the financial and other information that was supplied or otherwise made available to Ladenburg without assuming any responsibility for any independent verification of any such information. Further, Ladenburg relied upon the assurances of our and Sequoia's management that they were not aware of any facts or circumstances that would make any such information inaccurate or misleading. With respect to the financial information and projections utilized, Ladenburg assumed that such information has been reasonably prepared on a basis reflecting the best currently available estimates and judgments, and that such information provides a reasonable basis upon which it could make an analysis and form an opinion. The projections were solely used in connection with the rendering of Ladenburg's fairness opinion. The projections were prepared by Sequoia's management and are not to be interpreted as projections of future performance (or "guidance") by our management. Ladenburg did not evaluate the solvency or fair value of our Company or Sequoia under any foreign, state or federal laws relating to bankruptcy, insolvency or similar matters. Ladenburg did not make a physical inspection of the properties and facilities of our Company or Sequoia and did not make or obtain any evaluations or appraisals of either company's assets or liabilities (contingent or otherwise). In addition, Ladenburg did not attempt to confirm whether our Company or Sequoia had good title to their respective assets.

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Ladenburg assumed that the Merger will be consummated in a manner that complies in all respects with the applicable provisions of the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and all other applicable foreign, federal and state statutes, rules and regulations. Ladenburg assumes that the Merger will be consummated substantially in accordance with the terms set forth in the Merger Agreement, without any further amendments thereto, and that any amendments, revisions or waivers thereto will not be detrimental to our stockholders. In addition, based upon discussions with our management, Ladenburg assumed that for U.S. federal tax income purposes the Merger shall qualify as a tax-free transfer pursuant to Section 351 of the Internal Revenue Code of 1986, as amended.

Ladenburg's analysis and opinion are necessarily based upon market, economic and other conditions, as they existed on, and could be evaluated as of, November 29, 2007. Accordingly, although subsequent developments may affect its opinion, Ladenburg has not assumed any obligation to update, review or reaffirm its opinion.

In connection with rendering its opinion, Ladenburg performed certain financial, comparative and other analyses as summarized below. Each of the analyses conducted by Ladenburg was carried out to provide a different perspective on the Merger, and to enhance the total mix of information available. Ladenburg did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion as to the fairness, from a financial point of view, of the Merger Consideration to our stockholder's. Further, the summary of Ladenburg's analyses described below is not a complete description of the analyses underlying Ladenburg's opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Ladenburg made qualitative judgments as to the relevance of each analysis and factors that it considered. In addition, Ladenburg may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuations resulting from any particular analysis described above should not be taken to be Ladenburg's view of the value of Sequoia's assets. The estimates contained in Ladenburg's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses or assets neither purports to be appraisals nor do they necessarily reflect the prices at which businesses or assets may actually be sold. Accordingly, Ladenburg's analyses and estimates are inherently subject to substantial uncertainty. Ladenburg believes that its analyses must be considered as a whole and that selecting portions of its analyses or the factors it considered, without considering all analyses and factors collectively, could create an incomplete and misleading view of the process underlying the analyses performed by Ladenburg in connection with the preparation of its opinion.

The summaries of the financial reviews and analyses include information presented in tabular format. In order to fully understand Ladenburg's financial reviews and analyses, the tables must be read together with the accompanying text of each summary. The tables alone do not constitute a complete description of the financial analyses, including the methodologies and assumptions underlying the analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Ladenburg.

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The analyses performed were prepared solely as part of Ladenburg's analysis of the fairness, from a financial point of view, of the Merger Consideration to our stockholders, and were provided to our Board in connection with the delivery of Ladenburg's opinion. The opinion of Ladenburg was just one of the many factors taken into account by our Board in making its determination to approve the Merger, including those described elsewhere in this proxy statement.

Stock Performance Review

Ladenburg reviewed the daily closing market price and trading volume of our Common Stock for the twelve (12) month period ended November 21, 2007 (the last trading date prior to the announcement of the Merger). Ladenburg noted that during the period, our Common Stock price ranged from $0.44 to $0.96 and had a mean closing stock price of $0.67 and a mean daily trading volume of 29,427.

Consideration Analysis

Ladenburg reviewed the consideration implied by the Merger Consideration based on our pre-announcement stock price (as of November 21, 2007) and one month average stock price, and after taking into account the effect of the Reverse Stock Split and Dividend (which was originally contemplated to be a distribution of common stock of a newly formed subsidiary to the Company's stockholders). Based on the Merger Consideration, approximately 38,899,018 shares in our Company will be issued to Sequoia including approximately 12,074,771 shares underlying options and warrants (utilizing the treasury stock method). Based on our adjusted historical share price range of $1.66 and $1.76, Ladenburg determined an indicated value range of the Consideration between approximately $46.0 million and approximately $48.0 million.

Valuation Overview

Ladenburg generated an indicated valuation range for Sequoia based on a discounted cash flow analysis, a comparable company analysis and a comparable transaction analysis each as more fully discussed below. Based on discussions with our management, Ladenburg assumed that no debt or cash will be assumed at the closing of the Merger. Therefore, enterprise value is also equal to equity value. For purposes of Ladenburg's analyses, "enterprise value" means equity value plus all interest-bearing debt less cash.

Ladenburg weighted the three approaches equally and arrived at an indicated equity value range of approximately $41.4 million and approximately $58.9 million. Ladenburg noted that the indicated value range of the Merger Consideration was within Sequoia's indicated equity value range.

Discounted Cash Flow Analysis

A discounted cash flow analysis estimates value based upon a company's projected future free cash flow discounted at a rate reflecting risks inherent in its business and capital structure. Unlevered free cash flow represents the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations.

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While the discounted cash flow analysis is the most scientific of the methodologies used, it is dependent on projections and is further dependent on numerous industry-specific and macroeconomic factors.

Ladenburg utilized the forecasts provided by Sequoia's management, which project strong future growth in revenues from fiscal years 2006 to 2011 from approximately $0.7 million to $103.1 million, respectively. Historically, Sequoia has not generated significant revenue. Management anticipates significant increases in revenue as a result of new contracts for their products rolling out over the next year. Most of this revenue is expected to be derived from existing signed contracts with major companies including Wal-Mart and Kodak/Qualex.

The projections also project an improvement in EBITDA from fiscal years 2006 to 2011, from a loss of approximately $2.8 million to a profit of approximately $37.0 million, respectively. By 2011, Sequoia's management projects Sequoia to generate an EBITDA margin of 35.9%. For purposes of Ladenburg's analyses, "EBITDA" means earnings before interest, taxes, depreciation and amortization, as adjusted for add-backs for non-cash stock compensation expenses.

In order to arrive at a present value, Ladenburg utilized discount rates ranging from 28% to 30%. This was based on an estimated weighted average cost of capital, or WACC, of 29% (based on Sequoia's estimated weighted average cost of debt of 12% and a 30.3% estimated cost of equity). The cost of equity calculation was derived utilizing the Ibbotson build up method utilizing appropriate equity risk, industry risk and size premiums and a company specific risk factor, reflecting the risk associated with being able to generate the projected sales and EBITDA growth given their product is new and given Sequoia operates within a highly competitive industry.

Ladenburg also presented a range of terminal values at the end of the forecast period by applying a range of long-term perpetual growth rates between 3% and 7%. Based on these assumptions, Ladenburg calculated a range of indicated enterprise values of between approximately $40.1 million and approximately $53.0 million.

Comparable Company Analysis

A selected comparable company analysis reviews the trading multiples of publicly traded companies that are similar to Sequoia with respect to business and revenue model, operating sector, size and target customer base.

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Ladenburg reviewed and compared the trading multiples of two sets of comparable companies:

- Photo Media Service Companies – Ladenburg located four companies that provide digital photo-related services and various personal products to consumers primarily via online delivery, mail delivery, retail/in-store fulfillment, and self-service kiosks. These companies include:
  - Shutterfly, Inc.
  - MAGIX AG
  - Photoworks, Inc.
  - PhotoChannel Networks, Inc.
- High Growth Digital Media Software Companies – Ladenburg located five high-growth software companies that provide various software services to consumers in the digital media space. These companies were selected on the basis of not only exhibiting significant historical growth, but also projected future growth based on consensus earnings estimates. These companies include:
  - NICE Systems Ltd.
  - X-Rite, Inc.
  - Starent Networks, Corp.
  - DivX, Inc.
  - Sonic Foundry, Inc.

Ladenburg noted the following:

- All of the comparable companies are larger than Sequoia in terms of revenue, with the latest twelve months, or LTM, revenue ranging from approximately $5.5 million to approximately $490.3 million, compared with approximately $0.6 million for Sequoia.
- Three out of nine of the comparable companies generated EBITDA losses in the LTM period.
- Most of the Photo Media Service Companies, and all of the High Growth Digital Media Software Companies exhibited strong historical revenue growth of approximately 38.6% and 48.0%, respectively for the latest fiscal year, or LFY, period.
- Most of the Photo Media Service Companies, and all of the High Growth Digital Media Software Companies exhibited strong historical EBITDA growth of approximately 55.8% and 127.0%, respectively for the LFY period.
- Sequoia is projected to generate revenue and EBITDA growth higher than all of the comparable companies over the next two years.
- PhotoChannel Networks may be considered the most comparable to Sequoia] based on business model, industry and development stage. Although PhotoChannel has generated approximately $5.5 million in revenue over the

LTM period and recently completed the purchase of Pixology, PhotoChannel is expected to have the highest growth rates out of all of the comparable companies and is expected to continue to generate EBITDA losses until fiscal year 2008.

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Multiples utilizing enterprise value were used in the analyses. For comparison purposes, all operating profits including EBITDA were normalized to exclude unusual and extraordinary expenses and income.

Ladenburg generated a number of multiples worth noting with respect to the comparable companies:

Enterprise Value Multiple of	Mean	Median	High	Low
2007 revenue	5.15x	3.56x	14.57x	0.48x
2008 revenue	3.28x	2.82x	5.75x	0.44x
2009 revenue	2.56x	2.26x	4.04x	0.42x
2009 EBITDA	9.7x	10.1x	15.8x	1.8x

Ladenburg also noted that the forward 2008 revenue, 2009 revenue and 2009 EBITDA trading multiples for PhotoChannel Networks was approximately 5.75 times, 4.04 times, and 10.3 times, respectively.

Ladenburg also reviewed the historical multiples generated for the comparable companies, and noted that the mean enterprise value to LTM EBITDA multiple over the last ten years was 11.2 times.

Ladenburg selected an appropriate multiple range for Sequoia by examining the range indicated by the comparable companies and taking into account certain company-specific factors. Ladenburg expects Sequoia's fiscal year 2008 valuation multiples to be slightly above the mean of the comparable companies due to its higher projected revenue growth, but slightly lower than the mean of the comparable companies for 2009 due to its stage of infancy and related risks of being able to generate significant revenues.

Based on the above factors, Ladenburg applied the following multiples to the respective statistics:

- Multiples of 3.00x to 5.00x 2008 revenue
- Multiples of 1.50x to 2.50x 2009 revenue
- Multiples of 5.0x to 6.0x 2009 EBITDA

and calculated a range of enterprise values for Sequoia by weighting the above indications 80%, 10% and 10% respectively (to reflect the significant risks to achieving 2009 projections) of between approximately $40.2 million and approximately $62.8 million.

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None of the comparable companies have characteristics identical to Sequoia. An analysis of publicly traded comparable companies is not mathematical; rather it involves complex consideration and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading of the comparable companies.

Comparable Transaction Analysis

A comparable transaction analysis involves a review of merger, acquisition and asset purchase transactions involving target companies that are in related industries to Sequoia. The comparable transaction analysis generally provides the widest range of value due to the varying importance of an acquisition to a buyer (i.e., a strategic buyer willing to pay more than a financial buyer) in addition to the potential differences in the transaction process (i.e., competitiveness among potential buyers).

Information is typically not disclosed for transactions involving a private seller, even when the buyer is a public company, unless the acquisition is deemed to be “material” for the acquirer. As a result, the selected comparable transaction analysis is limited to transactions involving the acquisition of a public company, or substantially all of its assets, or the acquisition of a large private company, or substantially all of its assets, by a public company.

Ladenburg located 11 transactions announced since January 2004 involving target companies whose primary business is the provision of software products and services related to digital media and other multimedia applications and for which detailed financial information was available.

Target	Acquiror
Fotolog, Inc.	Hi-Media
Incando Corporation	Scripps Network, Inc.
Phtobucket, Inc.	Fox Interactive Media, Inc.
Flektor, Inc.	Fox Interactive Media, Inc.
Pixology PLC	PhotoChannel Networks, Inc.
InterVideo, Inc.	Corel Corporation
Flickr	Yahoo, Inc.
Pinnacle Systems, Inc.	Avid Technology, Inc.
Ulead Systems, Inc.	InterVideo, Inc.
Roxio – Consumer Software Division	Sonic Solutions
Twofold Photos, Inc.	CNET Networks, Inc.

Based on the information disclosed with respect to the targets in the each of the comparable transactions, Ladenburg calculated and compared the enterprise values as a multiple of LTM revenue and LTM EBITDA.

Ladenburg noted the following with respect to the multiples generated:

Multiple of enterprise value to	Mean	Median	High	Low
LTM revenue	7.29x	1.07x	38.71x	0.65x
LTM EBITDA	12.9x	10.6x	24.3x	5.9x

Ladenburg also noted that the mean LTM revenue multiple excluding the Fotolog transaction was 2.80 times.

Ladenburg expects Sequoia's valuation multiples to be slightly lower than the mean of the comparable companies due its stage of infancy and related risks of being able to generate significant revenues from its products.

Based on the above factors, Ladenburg applied the following multiples to the respective statistics:

- Multiples of 1.00x to 1.50x 2009 revenue,
- Multiples of 6.0x to 8.0x 2009 EBITDA,

and calculated a range of future enterprise values for Sequoia by weighting the above indications equally. Ladenburg then discounted this range of future enterprise values back to present values utilizing Sequoia's estimated WACC of 29% to derive an indicated enterprise value range of approximately $43.8 million to approximately $60.8 million.

None of the target companies in the comparable transactions have characteristics identical to Sequoia. Accordingly, an analysis of comparable business combinations is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the target companies in the comparable transactions and other factors that could affect the respective acquisition values.

Based on the information and analyses set forth above, Ladenburg delivered its written opinion to our Board, which stated that, as of November 29, 2007, based upon and subject to the assumptions made, matters considered, and limitations on its review as set forth in the opinion, the Merger Consideration is fair, from a financial point of view, to our stockholders.

Ladenburg is an investment banking firm that, as part of its investment banking business, regularly is engaged in the evaluation of businesses and their securities in connection with mergers, acquisitions, corporate restructurings, private placements, and for other purposes. We determined to use the services of Ladenburg because it is a recognized investment banking firm that has substantial experience in similar matters.

We paid Ladenburg a fee of $115,000 and reimbursed them for expenses upon the delivery of its fairness opinion dated November 29, 2007. The terms of the fee arrangements with Ladenburg, which Ladenburg and we believe are customary in transactions of this nature, were negotiated at arms' length between the Board and Ladenburg. In addition, we have agreed to indemnify Ladenburg for certain liabilities that may arise out of the rendering of its opinion. Further, Ladenburg and its affiliate Capitalink have previously provided non-contingent fairness opinion and other advisory services to our company. There are no other pending agreements to provide any other services to Sequoia or us.

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Pursuant to our policies and procedures, this opinion was not required to be, and was not, approved or issued by a fairness committee. Further, our opinion does not express an opinion about the fairness of the amount or nature of the compensation, if any, to any of the Company's officers, directors or employees, or class of such persons, relative to the compensation to the Company's stockholders.

In the ordinary course of business, Ladenburg, certain of Ladenburg's affiliates, as well as investment funds in which Ladenburg or its affiliates may have financial interests, may acquire, hold or sell, long or short positions, or trade or otherwise effect transactions, in debt, equity, and other securities and financial instruments (including bank loans and other obligations) of, or investments in us, any other party that may be involved in the Merger and their respective affiliates.

The opinion of Ladenburg was just one of the many factors taken into account by the Board in making its determination to approve the Merger, including those described elsewhere in this proxy statement.

Indemnification and Insurance

The Merger Agreement provides that all rights to indemnification or exculpation existing in favor of the employees, agents, directors or officers of the Company and our subsidiaries in effect on the date of the Merger Agreement and to Mark Levenick and Raymond Landry, former directors, will continue in full force and effect for a period of six years after the Merger. Additionally, we will purchase a single payment, run-off policy or policies of directors' and officers' liability insurance covering such parties for a period of six years after the Merger. We will also indemnify and hold harmless such parties in respect of acts or omissions occurring at or prior to the closing of the Merger.

Loan Agreement with Sequoia

Pursuant to the Loan Agreement, we have agreed to extend (and have extended) $2.5 million in secured financing to Sequoia. Under the terms of the Loan Agreement, Sequoia has agreed to pay interest on the loan at a rate per annum equal to 10%. Interest on the loan is payable on December 31, 2008, the scheduled maturity date. In addition, if the loan obligations have not been paid in full on or prior to the scheduled maturity date, a monthly fee equal to 10% of the outstanding loan obligations is payable to us by Sequoia on the last day of each calendar month for which the loan obligations remain outstanding.

We entered into the Loan Agreement to provide Sequoia with additional capital for working capital purposes and to provide Sequoia with additional liquidity until the Merger. If the Merger is not approved, the Loan Agreement provides for Sequoia to repay the loan as set forth above, under the terms and conditions set forth in the Loan Agreement. The loan is secured by a first priority lien on substantially all of the assets of Sequoia.

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Material United States Federal Income Tax Consequences

Our stockholders should not recognize any gain or loss as a result of the Merger. However, to the extent we declare and pay the Dividend, a portion of the distribution may be taxable as “qualified dividend income”, generally taxable at a federal rate of 15%, to the extent paid out of a stockholder’s pro rata share of our current or accumulated earnings and profits. The determination of the portion of the distribution, if any, that will be treated as qualified dividend income will be reported to you on a tax information return in early 2009. Any portion of the distribution in excess of each holder’s pro rata share of our earnings and profits will be treated first as a tax-free return of capital to the extent of each stockholder’s tax basis in his, her or its shares of our Common Stock, with any remaining portion treated as capital gain. Non-United States holders of our Common Stock generally will be subject to withholding on the gross amount of the distribution at a rate of 30% or such lower rate as may be permitted by an applicable income tax treaty. Because individual tax circumstances of stockholders vary, stockholders should consult their own tax advisors regarding the tax consequences to them of the distribution.

Regulatory Approvals

We are not aware of any regulatory requirements or governmental approvals or actions that may be required to consummate the Merger, except for compliance with the applicable regulations of the SEC in connection with this proxy statement and the Delaware General Corporation Law in connection with the Merger.

Board Composition and Management following the Merger

The Merger Agreement provides that, upon consummation of the Merger, Chett B. Paulsen, Sequoia’s current President and Chief Executive Officer will become our President and Chief Executive Officer, Richard B. Paulsen, Sequoia’s Vice President and Chief Technology Officer will become our Vice President and Chief Technology Officer, Edward “Ted” B. Paulsen currently Secretary/Treasurer and Chief Operating Officer of Sequoia will become our Secretary/Treasurer and Chief Operating Officer and Terry Dickson, currently Sequoia’s Vice President of Marketing and Business Development will become our Vice President of Marketing and Business Development.

In accordance with the Merger Agreement, upon completion of the Merger, the Board will increase the size of the Board from two to seven, and the Board will fill the five vacancies created by the increase by appointing as additional directors Chett B. Paulsen, Richard B. Paulsen, Edward B. Paulsen, John A. Tyson and Tod M. Turley.

We anticipate that upon the consummation of the Merger, our directors and executive officers will be as follows:

Name	Age	Position
Chett B. Paulsen	51	President, Chief Executive Officer, Director
Richard B. Paulsen	48	Vice President, Chief Technology Officer, Director
Edward B. Paulsen	44	Secretary/Treasurer, Chief Operating Officer, Director
Terry Dickson	50	Vice President Marketing and Business Development
Tod M. Turley	46	Director
John E. Tyson	65	Director
Jerrell G. Clay	66	Director
Stephen P. Griggs	50	Director

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Chett B. Paulsen, President and Chief Executive Officer, Director. Chett co-founded Sequoia in 2003 and serves as its President and Chief Executive Officer. From 1998 to 2002, Chett co-founded, served as President and then as Chief Operating Officer of Assentive Solutions, Inc. (aka, iEngineer.com, Inc.), which developed visualization and collaboration technologies for rich media content that was ultimately sold to Oracle in 2002. During his tenure with Assentive, the company raised more than $25 million in private and venture capital funding from entities including Intel, Sun Microsystems, J.W. Seligman, and T.L. Ventures. From 1995 to 1998, Chett founded and managed Digital Business Resources, Inc., which sold communications technologies to Fortune 100 companies such as American Stores and Walgreens, among others. From 1984 to 1995, Chett worked at Broadcast International (NASDAQ "BRIN") playing key management roles including Executive Vice President, Vice President of Operations and President of the Instore Satellite Network and Business Television Network divisions of Broadcast where he implemented and managed technology deployment in thousands of retail locations for Fortune 500 companies. During Chett's tenure at BI, market capitalization rose to over $200 million. Chett graduated from the University of Utah in 1982 with a B.S. degree in Film Studies.

Richard B. Paulsen, Vice President and Chief Technology Officer, Director. Richard co-founded Sequoia in 2003 and serves as its Vice President and Chief Technology Officer. From 1999 to 2003, Richard worked as a senior member of the technical staff for Wind River Systems (NASDAQ "WIND"), managing a geographically diverse software development team and continuing work on software technology Richard pioneered at Zinc Software from 1990 to 1998 as one of Zinc's founders. Zinc subsequently sold to Wind River in 1998. From 1998 to 2000, Richard enjoyed a sabbatical and served as the Director of Administrative Services for Pleasant Grove City, Utah, the highest appointed office in the city. From 1981 through 1990, Richard worked as a software consultant and programmer working for the University of Utah Department of Computer Science conducting software analysis, design and coding, and Custom Design Systems developing custom user interface tools and managing the company's core library used by thousands of developers worldwide. Richard graduated with a MBA degree, with an emphasis in financial and statistical methods, from the University of Utah in 1987 after receiving a B.S. degree in Computer Science from the University of Utah in 1985.

Edward "Ted" B. Paulsen, J.D., Secretary/Treasurer, Chief Operating Officer, Director. Ted has served as legal counsel since co-founding Sequoia in 2003, and joined the company full time as Chief Operating Officer in September 2006. From 2003 to September 2006, Ted served as the Chief Operating Officer and Corporate Secretary of Prime Holdings Insurance Services, Inc. where he helped position the company operationally and financially to secure outside capital and partner funding to support future growth beyond the company's then current annual revenue level. From 1995 through 2003, Ted worked as an associate and then partner with the law firm of Gibson, Haglund & Paulsen and its predecessor. With a securities focus, Ted has assisted emerging and growing businesses with organizational, operational and legal issues and challenges. His legal practice focused on assisting businesses properly plan and structure business transactions related to seeking and obtaining financing. Before moving to Utah and opening the Utah office of his firm in 1996, Mr. Paulsen worked in Southern California from 1990 to 1995 with the law firm of Chapman, Fuller & Bollard where he practiced in the areas of business and employment litigation and business transactions. Ted graduated from the University of Utah College of Law in 1990 after receiving a B.S. degree in Accounting from Brigham Young University in 1987.

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Terry Dickson, Vice President of Marketing and Business Development. Terry joined Sequoia in May 2006 and brings over 25 years of relevant software marketing, sales and management experience to Sequoia. Recent industry experience includes serving as Chief Executive Officer of Aventis, Inc, a venture-funded startup company developing email security software. Previously he was the founding Marketing Vice President at Vinca Corporation where he played the point role in negotiating a $92 million acquisition to Legato Systems (NASDAQ: LGTO) in 1999. Dickson served in several Marketing positions at the LANDesk software operation of Intel Corporation, including serving as the Business Unit Manager where he managed the growth from $15 to over $100 million over 3 years. He also served as Intel's Director of Platform Marketing, and was appointed as Chairman of the DMTF (Distributed Management Task Force), an industry standards body consisting of the top 200 computer hardware and software vendors. Terry received a BS Degree in Marketing in 1990 from Brigham Young University, and an MBA degree from the University of Colorado, Boulder in 1981.

Tod M. Turley, Director. Tod was appointed to the Board of Managers of Sequoia in March 2006 following an investment in Sequoia by Amerivon Holdings. Tod serves as the Chairman and Chief Executive Officer of Amerivon Holdings and Amerivon Investments LLC, a subsidiary of Amerivon Holdings founded in 2007 ("Amerivon Investments" and, together with Amerivon Holdings, "Amerivon"), of which he is a co-founder. Amerivon is a significant equity holder and investor in Sequoia. Through its integrated approach of sales, consulting and capital, Amerivon accelerates rapid growth plans for emerging growth companies such as Sequoia. Previously, Mr. Turley was the Senior Vice President, Business Development of Amerivon Holdings from 2001 to 2003. Prior to Amerivon, Mr. Turley was the co-founder and Senior Vice President of Encore Wireless, Inc. (private label wireless service provider with a focus on "big-box" retailers). Earlier, he served for 13 years as a corporate attorney and executive with emerging growth companies in the telecommunications industry. He currently serves as a director on a number of other boards of private companies, including Wireless Advocates and Smart Pack Solutions. Tod graduated from the University of Utah in 1985 with a BA in Economics and French, and subsequently graduated from the University of Southern California with a J.D. in 1988.

John E. Tyson, Director. John became a member of Sequoia's Board of Managers in May 2007 as a representative of Amerivon. John served as the President of Amerivon Holdings from May 2005 through April 2007. He became the President of Amerivon Investments upon its formation in 2007, and also serves as the Managing Director of Amerivon's Retail Capital Markets. For 15 years, Mr. Tyson was the Chairman and Chief Executive Officer of Compression Labs, Inc. ("CLI"), a NASDAQ company and a world leader in the development of Video Communications Systems. CLI pioneered the development of compressed digital video, interactive videoconferencing and digital broadcast television, including the systems used in today's highly successful Hughes DirecTV® entertainment network. Previous to CLI, Mr. Tyson has held executive management positions with AT&T, General Electric, and General Telephone & Electronics. Since CLI, Mr. Tyson founded etNetworks LLC, an IT training company (broadcasting IBM courses via satellite directly to the Desktop PC). In addition, he served for a short time as the Chief Executive Officer of an information design firm using visual maps to make complex processes easier to understand and a sales consulting and training company. He currently serves as Chairman of the Board of Provant, Inc., is a director on a number of boards of private companies, including MicroBlend Technologies, Retail Inkjet Solutions, The Wright Company and AirTegrity (a wireless networking company) and is an Advisory Board Member of the University of Nevada-Reno, Engineering School.

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Jerrell G. Clay, Director. Jerrell has served as a Director of Secure Alliance since December 1990, and as our Chief Executive Officer since October 3, 2006. Jerrell is also the Chief Executive Officer of 3 Mark Financial, Inc., an independent life insurance marketing organization, and has served as president of one of its predecessors for over five years. Jerrell also serves as a member of the Independent Marketing Organization's Advisory Committee of Protective Life Insurance Company of Birmingham, Alabama. Upon consummation of the Merger, Jerrell will resign as our Chief Executive Officer, but will remain a director of the Company.

Stephen P. Griggs, Director. Stephen has served as a Director of Secure Alliance since June 2002, as our President and Chief Operating Officer since October 3, 2006 and as our Principal Financial Officer and Secretary since April 20, 2007. Stephen has been primarily engaged in managing his personal investments since 2000. From 1988 to 2000, Stephen held various positions, including President and Chief Operating Officer of RoTech Medical Corporation, a NASDAQ-traded company. He holds a Bachelor of Science degree in Business Management from East Tennessee State University and a Bachelor of Science degree in Accounting from the University of Central Florida. Upon consummation of the Merger, Stephen will resign as our President and Chief Operating Officer, but will remain a director of the Company.

Chett B. Paulsen, Richard B. Paulsen and Edward B. Paulsen, the original founders of Sequoia, are brothers.

Material Legal Proceedings

On December 17, 2007, Robert L. Bishop, who worked with Sequoia in a limited capacity in 2004 and is a current member of a limited liability company that owns an equity interest in Sequoia, filed a legal claim against Sequoia for unpaid wages and/or commissions (with no amount specified) and promised equity. Chett B. Paulsen was also named individually in the suit. The complaint was served on Sequoia and Chett B. Paulsen on January 7, 2008. Both parties timely filed an Answer denying Mr. Bishop's claims.

Related Party Transactions

In December 2006, Sequoia entered into various loans with executives of Sequoia totaling $265,783. These loans bore interest at 10% per annum and were payable on or before December 31, 2007. Loan origination fees of $20,005 were recorded as an asset to be amortized over the life of the loans. On January 5, 2007, an additional $20,000 was loaned to Sequoia. In April and May 2007, total outstanding principal, accrued interest, and loan origination fees of $285,783, $10,376, and $20,005, respectively, were repaid and the associated asset was fully amortized.

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Tod M. Turley, a member of Sequoia's Board of Managers who will become a member of our Board if the Merger is approved and consummated, serves as the Chairman and Chief Executive Officer of Amerivon Investments and Amerivon Holdings. John E. Tyson, is also a member of Sequoia's Board of Managers who will become a member of our Board if the Merger is approved and consummated, serves as the President of Amerivon Investments and as the Managing Director of Amerivon's Retail Capital Markets. Amerivon is a significant investor and equity holder in Sequoia.

During 2006, Amerivon invested a total of $2,390,000 in Sequoia's convertible debt. At the time of its initial investment, Amerivon placed Tod M. Turley on Sequoia's Board of Managers. During 2007, Amerivon (i) converted $2,390,000 of Sequoia's convertible debt into common units of Sequoia membership interests, (ii) made a $2,000,000 bridge loan that was later converted in Series B Preferred Units of Sequoia membership interests (the "Series B preferred") and (iii) purchased an additional $4,400,000 of Series B preferred. Upon the closing of the Series B preferred offering, Amerivon placed John E. Tyson on Sequoia's Board of Managers. Amerivon has agreed to convert all of their preferred units to common units in the event the Merger is consummated. In exchange for the conversion, Amerivon has the right to receive 1,525,000 shares of Sequoia's common units.

Additionally, Sequoia entered into a consulting agreement with Amerivon on August 1, 2007 whereby Amerivon will receive up to $775,000 over the next 12 month period for advising Sequoia will regard to financial transactions and preparing for entering the public market. The consulting agreement calls for payment of $10,000 per month for six months from August 2007 to January 2008, with additional payments of $119,166 for the following six months. Amerivon has agreed to defer receipt of $109,116 each month until such time as the Sequoia has additional cash available.

Sequoia requires full Board of Managers review of any transaction that may result in the payment of more than $10,000 to any officer, director or related affiliate of Sequoia. Any member of the Board of Managers that is party to a transaction under review is required to abstain from the Board of Managers vote and does not participate in the meeting during which a final vote is taken on the matter. All members of the Board of Managers are charged with applying the procedures for related party transactions. Such procedures are in writing and kept by Sequoia's corporate secretary. Each related party transaction during 2007 and 2008 followed Sequoia's procedure for handling related party transactions.

Section 16(a) Beneficial Ownership Reporting Compliance

As of the date of this proxy statement, Sequoia had been under no obligation to disclose ownership holdings and transfers under Section 16(a) of the Exchange Act.

Director Independence

Sequoia is a privately held company and is not subject to director independence rules. Following the Merger, a majority of the members on the newly constituted Board will be independent; four directors will be non-management and three directors will be employed by Secure Alliance.

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Committees

Sequoia established audit and compensation committees in 2007.

Sequoia's audit committee consists of Edward B. Paulsen and Tod M. Turley and is charged with closely reviewing the audit report received from the auditors and providing a full report to Sequoia's Board of Managers. Jerrell Clay and Stephen Griggs currently serve on Secure Alliance's audit committee, with Stephen Griggs serving as the audit committee financial expert. See "Directors, Executive Officers and Corporate Governance" for more information about our audit committee.

Sequoia's compensation committee consists of Chett B. Paulsen and John E. Tyson, an outside director. Sequoia's compensation committee gathers information on industry salaries to set executive compensation levels. This committee also reviews all equity grants to employees. Jerrell Clay and Stephen Griggs currently serve on Secure Alliance's compensation committee. See "Directors, Executive Officers and Corporate Governance" for more information about our compensation committee.

Upon consummation of the Merger, we intend to form a nominating committee.

Sequoia Executive Compensation

Compensation Discussion and Analysis

Sequoia's primary objective with respect to executive compensation is to design a reward system that will align executives' compensation with Sequoia's overall business strategies and attract and retain highly qualified executives. The plan rewards revenue generation and achievement of revenue opportunities generated by signing contracts with retailers to carry Sequoia's products.

The principle elements of executive compensation are salary, bonus and stock option grants. Sequoia pays these elements of compensation to stay competitive in the marketplace with its peers.

During 2007, Sequoia participated in a Pre-IPO and Private Company Total Compensation Survey which polled 221 companies and just under 14,800 employees (the "Survey"). Sequoia's compensation committee, consisting of one outside manager and one executive manager, examined the software companies who participated in the Survey and determined to compensate its executives at approximately the 25th percentile because of the relative small size of Sequoia and the stage of revenue generation. Each executive position at Sequoia is represented in the Survey and the data from such positions were used in determining the executive salary levels for 2008. For years prior to 2008, all executives were working for salaries Sequoia determined it could afford and all were making salaries below market and below prior salary levels.

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The Survey also assessed bonus and total compensation levels. Sequoia's executive bonuses for 2008 are consistent with the Survey at about the 25th percentile. For years prior to 2008, bonuses were determined by assessing revenue generation, contracts signed with customers including large retailers, value creation through signed contracts and general contribution to the achievement of company objectives to position the company for revenues and additional outside capital investment. Sequoia's compensation also considered the number of kiosks on which its products were deployed as a result of an executive's efforts, since its products are delivered in one instance on kiosks located in major retailers.

Additional incentives in the form of options to purchase equity interests in Sequoia were granted in 2007. Terry Dickson was granted 510,000 options as incentive to join the company in 2006. The total grant was negotiated between Sequoia and Mr. Dickson. The remaining executives, Chett B. Paulsen, Richard B. Paulsen and Edward B. Paulsen have not received any option grants or equity in the company from its formation until 2007. In September 2007, Sequoia's Board of Managers approved stock option grants to the original founders as recognition of their efforts in generating revenues, signing major retail accounts, positioning the company for future growth and to provide additional incentive to continue in their management positions through a critical time of revenue and operational growth. The options vest over three years, with 50% vesting upon completion of one year of employment from the date of grant, or September 28, 2008, with the balance vesting monthly on a pro-rata basis over the following 24 months.

In considering the elements of compensation, Sequoia considers its current cash position in determining whether to adjust salaries, bonuses and stock option grants. Sequoia, as a small private company, has used its outside directors who sit on its Board of Managers (Tod M. Turley and John E. Tyson) to help guide the executive compensation.

Sequoia does not have a formal equity option plan.

Summary Compensation Table

Name	Year	Salary ($)	Bonus ($)	Stock Option ($)	Total ($)
Chett B. Paulsen,	2005	144,000	-		144,000
PEO, President,	2006	163,167	144,400		307,567
Manager	2007	199,375	138,937	27,322(1)	365,634
Richard B.	2005	120,000	-		120,000
Paulsen, CTO,	2006	142,917	129,500		272,417
Manager	2007	183,333	118,125	27,322(1)	328,780
Edward B.	2005	-	-		-
Paulsen, PFO,	2006	44,423	53,495		97,918
COO, Manager	2007	173,854	88,000	19,125(2)	280,979
Terry Dickson,	2005	-	-		-
VP Business	2006	103,231	131,625		234,856
Development	2007	181,042	135,000	8,197(3)	324,239
Mark Petersen,	2005	-	-	-	58,040(4)
VP Sales	2006	25,000	6,250	-	35,703(5)
	2007	100,000	50,000	2,732(6)	152,732

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(1) Non-qualified option grant to purchase 1,000,000 common units at $.62 (determined to be the fair market value on the date of grant). Option vests 50% upon completing 12 months of employment on September 28, 2008, with the balance vesting monthly on a pro rata basis over the next 24 months of employment.

(2) Non-qualified option grant to purchase 700,000 common units at $.62 (determined to be the fair market value on the date of grant). Option vests 50% upon completing of 12 months of employment at September 28, 2008, with the balance vesting monthly on a pro rata basis over the next 24 months of employment.

(3) Non-qualified option grant to purchase 300,000 common units at $.62 (determined to be the fair market value on the date of grant). Option vests 50% upon completing of 12 months of employment at September 28, 2008, with the balance vesting monthly on a pro rata basis over the next 24 months of employment.

(4) Independent contractor work.

(5) Includes $4,453 of other compensation.

(6) Non-qualified option grant to purchase 100,000 common units at $.62 (determined to be the fair market value on the date of grant). Option vests 50% upon completing of 12 months of employment at September 28, 2008, with the balance vesting monthly on a pro rata basis over the next 24 months of employment.

Information Related to Sequoia

Business

General Development of Sequoia's Business

Sequoia is a Utah limited liability company organized on March 28, 2003 under the name Life Dimensions, LC. In 2003, Sequoia changed its name from Life Dimensions, LC to Sequoia Media Group, LC. Sequoia's operations are currently governed by a Board of Managers made up of five managers, three of whom are the original founders and two of whom were appointed as part of a private equity investment. Substantially all of its business is conducted out of its Draper, Utah office. Sequoia also has an office in Bentonville, Arkansas to help service Wal-Mart, which is one of its largest retail customers.

Sequoia has developed and deployed a software technology that employs "Automated Multimedia Object Models," its patent-pending way of turning consumer captured images, video, and audio into complete digital files in the form of full-motion movies, DVD's, photo books, posters and streaming media files. Sequoia filed its first provisional patent in early 2004 for patent protection on various aspects of its technology with a full filing occurring in early 2005, and Sequoia has filed several patents since that time as part of its intellectual property strategy. Sequoia's technology carries the brand names of "aVinci" and "aVinci Experience."

In May 2004 Sequoia signed its first client agreement with BigPlanet, a division of NuSkin International, Inc. ("NuSkin"). Under the terms of its BigPlanet agreement, Sequoia supplied them with its software technology that they marketed, sold, and fulfilled for their consumers. Revenues from BigPlanet represent substantially all of Sequoia's sales through 2007 at approximately $3.4 million to date. Sequoia's agreement with BigPlanet expired on December 31, 2007. Sequoia and BigPlanet are in negotiations to continue their business relationship.

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Since inception, Sequoia has continued to develop and refine its technology to be able to provide higher quality products through a variety of distribution models including in-store kiosks, point of scan kits, and online downloads. Sequoia's business strategy has been to avoid providing traditional multimedia tools and services that focus on providing software for users to purchase and learn how to use so that they can build their own products, and instead provide a product solution that provides users with professionally created templates to be able to automatically create personalized products by simply adding end customer images.

Sequoia's business efforts during 2006 and 2007 were directed at developing relationships with mass retailers. Sequoia signed an agreement to provide its technology in Meijer stores at the end of 2006. Due to an integration problem issue with a third party supplier to Meijer, Sequoia has been delayed in deploying its software technology in Meijer stores. However, Sequoia is currently working with a new vendor, Hewlett Packard, to integrate its software and is scheduled to launch its products in Meijer stores in April 2008.

During 2007, Sequoia signed an agreement with Fujicolor to deploy its technology on their kiosks located in domestic Wal-Mart stores. Sequoia's initial integration and deployment with Fujicolor in domestic Wal-Mart stores took place in the third quarter of 2007.

Initial operations before Sequoia's formal entity organization in March 2003 were funded through founder contributions. Operations since May 2004 have been funded by royalty revenue received from BigPlanet, totaling approximately $3.4 million to date, and from outside investment capital, totaling approximately $9.8 million to date.

From pre-organization through Sequoia's initial contract, the founders contributed approximately $150,000. These initial contributions were provided in exchange for promissory notes bearing interest at 10%, the principal and interest of which were converted into convertible debentures bearing interest at 10% with a term of 13 months through January 31, 2005. The debentures and interest were converted into Series A preferred membership interests (the "Series A preferred") during January 2005. The preferences of the Series A preferred was the right to convert the debenture total into an investment in a future financing if, at anytime within 12 months of receiving the Series A preferred, Sequoia raised capital at a lower valuation than such debenture holders' initial investment (which did not occur), and the right to receive distributions upon a liquidating event before common unit holders receive distributions. The Series A preferred liquidation preference automatically terminates on the sale of a majority of Sequoia's assets or membership interests.

During the fourth quarter of 2003, Sequoia undertook a small private offering that closed in the first quarter of 2004. The offering consisted of 12-month convertible debt, bearing interest at the annual rate of 10%. In January 2005, all but $30,000 of the debt converted into Series A preferred. In February 2005, Sequoia closed a private offering of approximately $150,000 consisting of the sale of common units, and it followed that offering with another offering in June of 2005, consisting of the sale of common units through which Sequoia raised an additional $173,000.

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Needing more capital to continue pursuing its business plan through 2006, Sequoia undertook a larger private equity offering consisting of 12-month convertible debt, bearing interest at 10%. The offering was taken in its entirety by Amerivon, who invested a total of $830,000. At the time of the investment, Amerivon placed a member on Sequoia's Board of Managers. In August 2006, Amerivon invested an additional $1,560,000 in a convertible debt offering, bearing interest at 9%, intended to bridge Sequoia to a subsequent preferred equity offering targeting $5 to $7 million. During the first quarter of 2007, Amerivon provided additional bridge financing of $500,000 and an additional $535,000 of bridge financing during the second quarter of 2007. In May 2007, Sequoia closed the preferred equity offering with Amerivon at which time they converted approximately $2.4 million in aggregate convertible debt held by Amerivon, together with accumulated interest into common units of Sequoia. Amerivon also provided an additional $4.7 million in cash which, along with $1.5 million of the bridge financing provided during 2007, plus accumulated interest, was used to purchase a total of $6.2 million of Sequoia's Series B preferred. Upon the closing of the Series B preferred offering, Amerivon placed a second member on Sequoia's Board of Managers.

The Series B preferred entitles its holders to redemption rights after four years, annual dividends equal to 8% of the principal amount of the investment, and the right to receive distributions before common and Series A preferred holders receive distributions upon liquidation. The Series B preferred owners have agreed to convert all of their preferred units to common units in the event the Merger is consummated. In exchange for the conversion, Amerivon has the right to receive 1,525,000 additional common units of Seqouia.

Financial Information about Operating Segments

Sequoia conducts business within one operating segment in the United States. During the past three years, Sequoia has generated revenues primarily with one customer, BigPlanet, a division of NuSkin.

Description of Business

Software Technology and Products

Sequoia makes software technology that it packages in various forms available to mass retailers, specialty retailers, Internet portals and websites that allow end consumers to use an automated process to create products such as DVD productions, photo books, posters, calendars, and other print media products from consumer photographs, digital pictures, video, and other media. Sequoia's customers are retailers and other vendors and not end consumers. Sequoia enables its customers to sell its products to the end consumer who remain customers of its vendor and do not become its customers directly. Sequoia currently delivers its technology to end consumers through (i) third party photo kiosks at mass and specialty retail outlets, (ii) point of scan shrink wrapped software at mass and specialty retail outlets, (iii) simple software downloads through third party Internet sites, (iv) simple software downloads though its own managed Internet site to which third party Internet sites are linked, and (v) on its own managed web servers on the world wide web to which third party Internet sites are linked.

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Generally all of Sequoia's products require the end consumer to simply supply digital images. Sequoia supplies preformatted templates for an occasion, event, or style such as a wedding, birthday, or activity that fits a particular style. A template for a DVD generally includes six to eight different scenes that incorporate background images related to that particular template theme. Each scene is built around four to ten digital image frames, or placeholders, where user supplied images are placed to have the appearance of being part of the themed contextual images Sequoia supplies to support the template theme. Sequoia utilizes a technique it calls "layering," (which is the subject of its patent) to stitch together its supplied images with the user-supplied images to produce a themed DVD movie. Scenes may involve panning over the user images as though they are photographs sitting on a table, or having user images appear in frames sitting on a mantle as the camera angle appears to change and move around the mantle piece, to describe a few of the hundreds of scene effects Sequoia utilizes. Each template also provides a pre-designated position and font for a unique title, and in some instances subtitle and other text, to be added by the end consumer. The scenes are assembled in an order to give the production a feeling of telling a story. Each template also comes with a default sound track selected to match the template theme. In some applications of Sequoia's software, the consumer can select from one of several music selections fitted to the selected theme. All of the images and music Sequoia supplies with the themed templates are owned by Sequoia or have been fully licensed from the owners of the rights.

Using a wedding DVD template that is supplied on a retail kiosk as an example, a consumer brings a CD or photo storage card containing his or her images to a kiosk located in a retailer's store. The consumer inserts the image storage devise into the kiosk reader and the kiosk loads the user images onto the kiosk. The user then chooses to make a DVD from a menu on the kiosk at which point our software is launched. The user browses the categories and selects "wedding" from among four to six categories of templates and then selects "wedding day" from a few different wedding templates. The user next selects 40 photos from his or her user supplied images to be incorporated into the template and can rotate and move the images into the preferred orientation and order. A title and subtitle, such as "John and Jessica's Wedding," "November 14, 2007," are typed into the kiosk by the user and the user specifies the number of copies he or she wants to purchase. With this, the user has successfully ordered a wedding DVD.

Upon completion of an order, Sequoia takes the order information and images and builds the DVD product remotely at its offices. The user then gets back a DVD case with the users pictures on the cover containing a DVD with the users image printed on the DVD as a label and an insert containing thumbnail sized images of each user image used to make the DVD. The DVD plays on standard DVD players and starts with a customer or aVinci branded "spin-up" to get to a standard navigation screen. The navigation screen shows a user image in a contextual background consisting of wedding flowers. By pressing the "Play" button, the movie is launched with the first scene featuring a wedding announcement with John and Jessica's name in a rich stylistic font. The perceived camera angle then pans over to a digitally created frame containing a picture of the bride supplied by the user, while soft wedding themed music plays. The scenes transition with pictures of flowers taking the viewer through the wedding day. The DVD ends with credits for licensed media and audio used to produce the DVD production.

Sequoia's photo books are created in the same fashion as described for DVDs, only Sequoia's templates are created and laid out to tell the themed story in the form of a ten to twenty page, eight by eleven inch photo book. Book pages are laid out by Sequoia's design experts, printed on a digital press and hardbound. Posters incorporate one or more user images into themed art matching DVD and photo book themes. Sequoia is not currently selling any photo books, posters, or other print products to end consumers because Sequoia is still in the final stages of development. Sequoia plans to launch its first photo book and poster products during the first quarter of 2008 although it cannot be assured of when the products will launch.

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Product Delivery Model

Under Sequoia's business model, Sequoia integrates with retail or other vending customers according to each customer's business plan. Sequoia's customers maintain the end consumer relationship and control as much of the image capture, product creation, and delivery of product as they desire based largely upon the product delivery method they select. Sequoia does the rest. Whatever Sequoia's customers want to pass to it to manage, Sequoia manages.

With its kiosk model, Sequoia integrates with a third party kiosk provider and integrates its software onto the kiosk. End consumers using the kiosk load their images onto the kiosk and can make a variety of products. With Sequoia's software on the kiosk, when the consumer chooses to make a DVD product, its software launches and takes the consumer through the process of selecting a theme, a specific production type (called a storyboard), the photos to be integrated into the product, a title, and the order quantity. The kiosk then generates an order confirmation for the consumer who uses the confirmation to pick up and pay for the order when complete. Upon completion the kiosk order goes either to the retailer's lab to be fulfilled in store or to central processing to be fulfilled remotely.

Retailers and vendors can stock Sequoia's point of scan product which consists of a black case holding a CD containing a simplified version of its production software for a specific production type (such as Wedding) and a product code. The end consumer pays for the product at the store and can then use the CD at home or work to place their prepaid product order. The CD loads the software onto the customer's computer and walks the customer through the process of selecting his or her digital images to be used in creating the product, typing any unique consumer information such as a customized title and subtitle, entering order information for shipping, and uploading the order information and image files for remote fulfillment.

With third party Internet sites, the process is similar to Sequoia's point of scan product except for how the consumer loads the simple software on his or her computer and how he or she pays for the product order. With an Internet vendor that manages Sequoia's software through their site, Sequoia supplies the vendor with its software download. The consumer then downloads the simple software from the vendor's web servers over the Internet. The software loads and walks the customer through the process of selecting his or her digital images to be used in creating the product, typing any unique consumer information such as a customized title and subtitle, entering order information for shipping, taking the consumer's credit card information to process the payment transaction for products ordered via a secure Internet transaction, and uploading the order for remote fulfillment.

In the event a retailer or vendor wants Sequoia to manage the software download, they simply provide a link on their website to Sequoia and Sequoia provides the simple software download from its web servers over the Internet. The consumer process then works as outlined for a third party Internet site deployment. Following the software download, the software loads and walks the customer through the process of selecting his or her digital images to be used in creating the product, typing any unique consumer information such as a customized title and subtitle, entering order information for shipping, taking the consumers credit card information to process the payment transaction for products ordered via a secure Internet transaction, and uploading the order for remote fulfillment.

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As a companion to the point of scan product, Sequoia is currently developing a web site that will allow consumers who upload orders using the point of scan software to order additional copies and additional products on the web site. Under this business model, the consumer uploads the product order purchased as a point of scan product. Upon receipt of the order, Sequoia provides the consumer with a dialogue box asking if they would like to add additional copies of the created product to his or her order, and if he or she would like to order a companion photo book or poster to the order. If the customer chooses to order additional products, Sequoia processes the payment transaction for the products ordered via a secure Internet transaction.

To date Sequoia's customers have elected to have products fulfilled remotely. Sequoia fulfills all the products either in house or through third party vending partners. Once a consumer orders a product by selecting the product and the pictures and his or her images to be used in creating the product, the order and images are received by Sequoia's web servers deployed by it in-house or with third party vendors Sequoia contracts with to do its fulfillment work. The servers process the orders and photos and pass the electronic filed off to computers that build the final product and send the files to be burned on a DVD or printed on a print media product such as a photo book or poster. Finished products are shipped to retail customers for delivery to end customers or directly to end customers depending on the retail customer's business model.

Sequoia's revenue model generally relies on a per product royalty. With all product deployments except the point of scan product, each time an end customer makes a product utilizing Sequoia's technology, Sequoia receives a royalty from its retail customers. From the royalty received, Sequoia pays the royalties associated with licensed media and technology. If Sequoia is performing product fulfillment, Sequoia also pays the costs of good associated with production of the product. If Sequoia's customer utilizes in-store fulfillment, its customer pays the cost of goods associated with production.

Sequoia currently has fulfillment hardware deployed in two locations including its Draper, Utah office and a Qualex (a subsidiary of Eastman Kodak Company) facility in Allentown, Pennsylvania that allow for the fulfillment of DVD products. Both locations have computer server configurations and DVD burning and printing units. DVD supplies, including DVD media supplied by Verbatim and Taiyo Yuden, DVD cases, and paper for printing DVD case covers, are inventoried to be able to meet customer DVD fulfillment needs. Sequoia's photo book and poster product fulfillment operations are in the implementation stage. Sequoia intends to fulfill photo books and posters with third party fulfillment partners. Currently, Sequoia has a fulfillment agreement with Qualex to build and ship many of its DVDs, photo books and posters for select customers. Integration with Qualex for creating DVD media was completed in February 2008.

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Customers

In May 2004, Sequoia signed its first client agreement with BigPlanet, a division of NuSkin. NuSkin is a global direct selling company. NuSkin markets premium-quality personal care products under the Nu Skin® brand, science-based nutritional supplements under the Pharmanex® brand, and technology-based products and services under the Big Planet® brand. BigPlanet, NuSkin's technology division, offers its customers ways to easily preserve, organize, share and enjoy photos online. Under the terms of its BigPlanet agreement, Sequoia supplied software technology to build DVD movies which BigPlanet marketed, sold, and fulfilled for their consumers under their brand name "PhotoMax." Revenues from BigPlanet represented substantially all of Sequoia's sales through 2007 at approximately $3.4 million to date. The agreement required an annual minimum guaranteed royalty of $1 million, which was payable monthly in the amount of $83,333.33. Sequoia's agreement with BigPlanet expired on December 31, 2007 and Sequoia has been paid current through the end of the term. Sequoia is in negotiations with BigPlanet to continue their business relationship.

On September 18, 2006, Sequoia signed an agreement to provide its technology in Meijer stores. Meijer Distribution, Inc. ("Meijer") is a Michigan-based retailer that operates 181 super centers throughout the mid-west. Sequoia's agreement term with Meijer continues through a date two years from the date Meijer first makes Sequoia's software technology available to end consumers, subject to automatic renewal for additional 12-month periods after the initial term. Under the terms, Meijer purchases DVD kits from Sequoia consisting of a pre-labeled DVD, DVD cover and paper for the case cover, and inserts printed with thumbnail size images of all the user photographs provided for use in the DVD production. Meijer placed and paid for an initial purchase order of DVD kits, for approximately $109,000, but due to an integration issue with a third party supplier to Meijer, the deployment was delayed. Meijer entered into an agreement with Hewlett Packard to deploy a photo kiosk solution in Meijer stores. Sequoia is currently working with Hewlett Packard to integrate its software on Hewlett Packard's kiosks to launch its products in Meijer stores in April 2008.

In January 2006, Sequoia signed an agreement with Storefront, a photo kiosk company. Storefront anticipated deploying Sequoia's software on client kiosks in retailers such as King Soopers, Smith's, Fred Meyer, Ralph's and others. Storefront has not deployed Sequoia's software to date and Sequoia does not know if they will ever deploy Sequoia software with their customers.

On September 1, 2007, Sequoia signed an agreement with Qualex, Inc. ("Qualex") to allow for the distribution of its software product to Qualex customers. Qualex, a wholly owned subsidiary of Eastman Kodak, is the largest wholesale and on-site photofinishing company in the world and it offers traditional print and digital output solutions by operating a large network of commercial and in store labs throughout the United States and Canada. The agreement term is through September 30, 2009, at which point it is subject to extension for additional 12-month terms at the election of either party. Qualex will provide the fulfillment services for all of its customers and Sequoia will get a royalty per product produced. Sequoia also signed a separate agreement with Qualex at the same time that provides for Qualex to perform fulfillment services for select customers. As part of the agreement, Sequoia has deployed its fulfillment technology and equipment in Qualex's Allentown, Pennsylvania fulfillment center. Sequoia began processing live orders in February 2008 with Qualex.

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During 2007 at the request of Wal-Mart, Sequoia signed an agreement with Fujicolor to deploy its technology on Fujicolor kiosks located in domestic Wal-Mart stores. Wal-Mart is a worldwide retailer with more than 5,000 domestic retail stores. Fujicolor is part of Fujifilm, which is a world leader in photographic products and technology. Sequoia’s initial integration and deployment with Fujicolor in domestic Wal-Mart stores took place in the third quarter of 2007. Sequoia’s DVD product offering is currently deployed throughout domestic Wal-Mart stores on Fujicolor kiosks in more than 3,000 stores. Upon deployment with Fujicolor, Sequoia intended to update the first version of its software within several months. Because of software updates Fujicolor is making to its kiosks generally, Sequoia has not been able to deploy any updates. Sequoia is prepared to and anticipates updating its software in the second quarter of 2008, but has no definitive time for the update, which is dependent upon Fujicolor.

In January 2008, Sequoia signed an agreement with Costco.com, to deliver its DVD product online. The parties intend to launch the product during the first quarter of 2008.

In addition to its current customers, Sequoia continues to actively negotiate agreements and relationships with other mass and specialty retailers and other vending partners.

Competitors

Sequoia’s competitors consist primarily of professional videographers on the high-cost end and slideshow software programs on the low-cost end, with varying software tools in the middle. Unfamiliar evaluators on the surface may attempt to compare the low-end slide show creator products with Sequoia’s products, but when compared side by side differences are readily seen in production quality and detail. Generally only user images are included in the slide show and context; graphics, audio, and music are not included. Finished productions are generally poor quality and lack any meaningful emotional impact.

Software providers who supply consumer tools or solutions for consumers to make their own DVD productions include Adobe, Microsoft, Ulead, PhotoShow, Roxio, among others. The closest direct competitive products to Sequoia’s technology are software tools such as iPhoto, iMovie and Final Cut Pro from Apple, each of which require users to spend a significant sum for the software, devote extensive time to master software usage, and significant time to create each individual production. Additional competitors include Simple Star, MuVee, RocketLife, PhotoDex, and Smilebox all of which offer similar products.

Common to software tools are their lack of automation. The user spends a vast amount of time mastering software to produce the same sort of automated results that can otherwise be accomplished very quickly with Sequoia’s products. A software user must first import media, organize it, choose timing and effects, edit music to length then render the production. The rendered production must then be committed to DVD where the user has to then design a DVD interface before burning to DVD to have any navigation capabilities.

Employees

As of February 28, 2007, Sequoia had 39 full-time employees, 7 part-time employees. All of its employees work in its primary business office in Draper, Utah.

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Properties

Sequoia currently leases approximately 13,000 square feet of office space at 11781 Lone Peak Parkway, Suite 270, Draper, and Utah 84020. Its current lease term ends on April 30, 2010. Sequoia has a good relationship with its landlord, DBSI Draper LeaseCo LLC. Sequoia conducts its corporate, development, sales, and certain manufacturing operations out of its Draper office. Sequoia's main telephone number is (801) 495-5700 and its facsimile number (801) 495-5701. Sequoia maintains a web site at www.sequoiamg.com. Sequoia leases space in a computer hardware collocation facility in Salt Lake City and has a good relationship with the landlord.

In Bentonville, Arkansas, Sequoia rents an office in an office suite consisting of one office of about 300 square feet. Sequoia uses the office when it visits Wal-Mart corporate offices.

Legal Proceedings

On December 17, 2007, Robert L. Bishop, who worked with Sequoia in a limited capacity in 2004 and is a current member of a limited liability company that owns an equity interest in Sequoia, filed a legal claim against Sequoia for unpaid wages and/or commissions (with no amount specified) and promised equity. The Complaint was served on Sequoia on January 7, 2008. Sequoia timely filed an Answer denying Mr. Bishop's claims.

Intellectual Property

In early 2003, through patent counsel, Sequoia performed an initial patent search for products and processes similar to its software technology. The search revealed no prior art. In January 2004, Sequoia filed initial patent applications seeking broad patent protection for its ideas, technologies, point-of-sale business concept, and the system of automating solutions through the use of pre-constructed templates.

Since its initial filing, Sequoia has completed additional filings to extend and broaden its patent protection. In February 2005, Sequoia filed for international patent protection based on its original patents pending, filings with the individual countries in Europe and Asia to secure the patents internationally.

As part of its product development, Sequoia routinely licenses media content such as pictures, videos and audio to create products. Sequoia has numerous license agreements with stock image and music sources that it routinely reviews and keeps current.

Recent Sales of Unregistered Securities

During the first half of 2006 Sequoia undertook a private equity offering consisting of 12-month convertible debt, bearing interest at 10%. The offering was taken in its entirety by Amerivon, who invested a total of $830,000. At the time of the investment, Amerivon placed a member on Sequoia's Board of Managers. In August of 2006, Amerivon invested an additional $1,560,000 in a convertible debt offering, bearing interest at 9%, intended to bridge Sequoia to a subsequent preferred equity offering targeting $5 to $7 million. During the first quarter of 2007, Amerivon provided additional bridge financing of $500,000 and an additional $535,000 of bridge financing during the second quarter of 2007. In May 2007, Sequoia closed the preferred equity offering with Amerivon at which time they converted approximately $2.4 million in aggregate convertible debt held by Amerivon, together with accumulated interest into common units of Sequoia. Amerivon also provided an additional $4.7 million in cash, which, along with $1.5 million of the bridge financing principle provided during 2007, plus accumulated interest, was used to purchase a total of $6.2 million worth of Sequoia's Series B preferred. Upon the closing of the Series B preferred offering, Amerivon placed a second member on Sequoia's Board of Managers.

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Series B preferred holders are entitled to redemption rights after four years, annual dividends equal to 8% of the principal amount of the investment, and the right to receive distributions before common and Series A preferred holders receive distributions upon liquidation. Upon the consummation of the Merger, Series B preferred owners will convert all of their preferred units to ownership of Sequoia common units. In exchange for the conversion, Amerivon has the right to receive 1,525,000 shares of Sequoia common units.

Sequoia's Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Sequoia makes software technology that it packages in various forms available to mass retailers, specialty retailers, Internet portals and web sites that allow end consumers to use an automated process to create products such as DVD productions, photo books, posters, calendars, and other print media products from consumer photographs, digital pictures, video, and other media. Sequoia's customers are retailers and other vendors and not end consumers. Sequoia enables its customers to sell its products to the end consumer who remain customers of the vendor.

Sequoia's revenue model generally relies on a per product royalty. With all product deployments except a point of scan product, each time an end customer makes a product utilizing Sequoia's technology, Sequoia receives a royalty from its retail customer. From the royalties received, Sequoia pays the royalties associated with licensed media and technology. If Sequoia is performing product fulfillment, Sequoia also pays the costs of goods associated with the production of the product. If Sequoia's customer utilizes in-store fulfillment, its customer pays the cost of goods associated with production.

Through 2007, Sequoia generated revenues through the sales of DVD products created using its technology. During 2008, Sequoia intends to deploy its technology to create photo books and posters. Sequoia will continue to utilize its current revenue model of receiving a royalty for each product made using its technology.

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Sequoia signed its first agreement in 2004 under which it supplied its software technology to BigPlanet, a company that markets, sells, and fulfilled personal DVD products for its customers. Through 2006 all of Sequoia's revenues were generated through BigPlanet. Under the terms of this agreement, BigPlanet was required to make minimum annual guaranteed payments to Sequoia in the amount of $1 million to be paid in 12 equal monthly installments. The BigPlanet agreement included software development, software license, post-contract support and training. As a result of the agreement terms, Sequoia determined to use the percentage-of-completion method of accounting to record the revenue for the entire contract. Sequoia utilized the ratio of total actual costs incurred to total estimated costs incurred related to BigPlanet to determine the proportional amount of revenue to be recognized at each reporting date.

During 2006, Sequoia signed an additional agreement to provide its technology in Meijer stores. The technology has not yet been deployed in Meijer due to an integration issue with a third party supplier, so the account has not generated any revenues to date. However, Sequoia is working with a new vendor, Hewlett Packard, to integrate its software and is scheduled to launch its products in Meijer stores in April 2008.

In 2007, Sequoia signed an agreement with Fujicolor to deploy its technology on Fujicolor kiosks located in domestic Wal-Mart stores. Sequoia has begun generating limited revenues through Wal-Mart and anticipates generating additional revenues through its Wal-Mart deployment during 2008.

Sequoia manufactures its DVDs in its Draper, Utah facility and uses services of local third-party vendors to produce print DVD covers and inserts and to assemble and ship final products. Through a services agreement, Sequoia began using Qualex to manufacture DVD and print product orders for certain customers. Qualex has deployed equipment in Allentown, Pennsylvania and Houston, Texas to manufacture Sequoia product orders.

Basis of Presentation

Net Revenues. Sequoia generates revenues primarily from licensing the rights to customers to use its technology to create DVD products and from providing software through retail and online outlets that allow end consumers access to the technology to generate product orders which Sequoia produces and ships. Customers then pay royalties to Sequoia on orders produced. Sequoia's ongoing revenue agreements are generally multiple element contracts that may include software licenses, installation and set-up, training and post contract customer support (PCS). For some of the agreements, Sequoia produces DVDs for the end customer. For other agreements, Sequoia provides blank DVD materials and Sequoia's customer produces DVDs for the end customer. For other contracts, Sequoia does not provide any materials and Sequoia's customer fulfills the orders for the end consumer. Vendor specific objective evidence of fair value (VSOE) does not exist for any of the elements of these contracts. Therefore, revenue under the majority of Sequoia's contracts is deferred until all elements of the contract have been delivered except for the training and PCS. At that time, the revenue is recognized over the remaining term of the contract on a straight-line basis. Beginning in 2008, Sequoia will allow customers to place orders via its website and pay using credit cards. Revenues for orders placed online will be recognized upon shipment of the product. Sequoia believes that its online product offering, which will expand beyond DVDs to include photo books and posters in 2008, through its customers' websites and through its websites linked to customer websites, will generate significant additional revenues in the future.

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As Sequoia expands its product offering through additional customers, Sequoia believes its business and revenues will be subject to seasonal fluctuations prevalent in the photo industry. A substantial portion of its revenues will likely occur during the holiday season in the fourth quarter of the calendar year. Sequoia expects to experience lower net revenues during the first, second and third quarters than it experiences in the fourth quarter. This trend follows the typical photo and retail industry patterns.

Sequoia has begun tracking key metrics to understand and project revenues and costs in the future, which include the following:

Average Order Size. Average order size includes the number of products per order and the net revenues for a given period of time divided by the total number of customer orders recorded during that same period. As Sequoia expands its product offerings, it expects to increase the average order size in terms of products ordered and revenue generated per order.

Total Number of Orders. For each customer, Sequoia monitors the total number of orders for a given period, which provides an indicator of revenue trends for such customer. Sequoia recognizes the revenues associated with an order when the products have been shipped. Orders are typically processed and shipped within three business days after a customer order is received.

Sequoia believes the analysis of these metrics provides it with important information on its overall revenue trends and operating results. Fluctuations in these metrics are not unusual and no single factor is determinative of its net revenues and operating results.

Cost of Revenues. Sequoia's cost of revenues consist primarily of direct materials including DVDs, DVD cases, picture sheet inserts, third-party printing, assembly and packaging costs, payroll and related expenses for direct labor, shipping charges, packaging supplies, distribution and fulfillment activities, rent for production facilities and depreciation of production equipment. Cost of revenues also includes payroll and related expenses for personnel engaged in customer service. In addition, cost of revenues includes any third-party software or patents licensed, as well as the amortization of capitalized website development costs. Sequoia capitalizes eligible costs associated with software developed or obtained for internal use in accordance with the American Institute of Certified Public Accountants, or AICPA, Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and Emerging Issues Task Force, or EITF, Issue No. 00-02, "Accounting for Website Development Costs." Costs incurred in the development phase are capitalized and amortized in cost of revenues over the product's estimated useful life.

Operating Expenses. Operating expenses consist of sales and marketing, research and development and general and administrative expenses. Sequoia anticipates that each of the following categories of operating expenses will increase in absolute dollar amounts.

Research and development expense consists primarily of personnel and related costs for employees and contractors engaged in the development and ongoing maintenance of Sequoia's deployment of its products or various delivery platforms including online, web and shrinkwrap deployments. These expenses include depreciation of the computer and network hardware used to run Sequoia's website and product final products, as well as amortization of purchased software. Research and development expense also includes co-location and bandwidth costs.

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Sales and marketing expense consists of costs incurred for marketing programs and personnel and related expenses for Sequoia customer acquisition, product marketing, business development and public relations activities.

General and administrative expense includes general corporate costs, including rent for the corporate offices, insurance, depreciation on information technology equipment and legal and accounting fees. In addition, general and administrative expense includes personnel expenses of employees involved in executive, finance, accounting, human resources, information technology and legal roles. Third-party payment processor and credit card fees will also be included in general and administrative expense in 2008. Sequoia also anticipates both an additional one-time cost and a continuing cost associated with public reporting requirements and compliance with the Sarbanes-Oxley Act of 2002, as well as additional costs such as investor relations and higher insurance premiums.

Interest Expense. Interest expense consists of interest costs recognized under Sequoia's capital lease obligations and for borrowed money.

Income Taxes. Sequoia has been a limited liability company and not subject to entity taxation. Going forward, Sequoia anticipates making provision for income taxes depending on the statutory rate in the countries where it sells its products. Historically, Sequoia has only been subject to taxation in the United States. If Sequoia continues to sell its products primarily to customers located within the United States, Sequoia anticipates that its long-term future effective tax rate will be between 38% and 45%, without taking into account the use of any of Sequoia's net operating loss carry forwards. However, Sequoia anticipates that in the future it may further expand its sales of products to customers located outside of the United States, in which case it would become subject to taxation based on the foreign statutory rates in the countries where these sales took place and our effective tax rate could fluctuate accordingly.

Critical Accounting Policies and Estimates

Sequoia's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these consolidated financial statements requires Sequoia to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. Sequoia bases its estimates on historical experience and on various other assumptions that Sequoia believes to be reasonable under the circumstances. In many instances, Sequoia could have reasonably used different accounting estimates, and in other instances, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by management. To the extent that there are material differences between these estimates and actual results, Sequoia's future financial statement presentation of its financial condition or results of operations will be affected.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application, while in other cases, management's judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions.

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Results of Operations

Comparison of the Years Ended December 31, 2007 and 2006

Revenues.

	2007	2006	% Change
Revenues	$ 541,856	$ 739,200	(27%)

More than 90% of all revenues generated in 2007 and 100% in 2006 came from Sequoia's agreement with BigPlanet. Under the terms of the agreement, BigPlanet was obligated to pay Sequoia $1 million in annual minimum guaranteed royalties, payable in 12 equal monthly installments of $83,333.33. Big Planet timely paid each monthly installment during each of the 24 months through 2005 and 2006. The BigPlanet agreement included software development, software license, post-contract support and training. Because the contract included the delivery of a software license, Sequoia accounted for the contract in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as modified by SOP 98-9, Modification of SOP 97-2 with Respect to Certain Transactions. SOP 97-2 applies to activities that represent licensing, selling, leasing, or other marketing of computer software.

Because the contract included services to provide significant production, modification, or customization of software, in accordance with SOP 97-2, Sequoia accounted for the contract based on the provisions of Accounting Research Bulletin (ARB) No. 45, Long-Term Construction-Type Contracts, and the relevant guidance provided by SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. In accordance with these provisions, Sequoia determined to use the percentage-of-completion method of accounting to record the revenue for the entire contract. Sequoia utilized the ratio of total actual costs incurred to total estimated costs to determine the amount of revenue to be recognized at each reporting date. Sequoia records billings and cash received in excess of revenue earned as deferred revenue. The deferred revenue balance generally results from contractual commitments made by customers to pay amounts to Sequoia in advance of revenues earned. The unbilled accounts receivable represents revenue that has been earned but which has not yet been billed. Sequoia considers current information and events regarding its customers and their contracts and establishes allowances for doubtful accounts when it is probable that it will not be able to collect amounts due under the terms of existing contracts.

As a result of Sequoia's use of the stated accounting methods, revenue recognition recognized income in years other that the year cash was received. The cash received under the BigPlanet agreement was the same in 2007 and 2006, or $1 million each year. As a result of applying the percentage-of-completion method, revenue decreased from $748,069 in 2006 to $541,856 in 2007, a 27% drop. The change in revenue recognition in 2007 from 2006 reflects the relationship between the percentage of Sequoia's total operating expenses directly associated with the BigPlanet agreement and those related to other activities of the company during each respective year of the agreement. During 2006 a much greater percentage of Sequoia's resources were dedicated to the BigPlanet agreement than during 2007 because of Sequoia's pursuit of and work on additional customer accounts. The BigPlanet agreement expired on December 31, 2007. The parties are in negotiations to continue their business relationship.

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Under the original BigPlanet agreement, Sequoia provided its technology to BigPlanet for it to use to market, sell and product customer products. Accordingly, Sequoia did not have any costs of goods sold associated with the BigPlanet revenues, only general and administrative expenses.

Sequoia maintains its cash in bank demand deposit accounts, which at times may exceed the federally insured limit. As of December 31, 2007 and 2006, Sequoia had limited cash generating interest revenue and had not experienced any losses.

Operating Expenses.

	2007	2006	% Change
Research and Development	$ 1,890,852	$ 1,067,687	77%
Selling and Marketing	1,351,860	547,448	147%
General and Administrative	3,677,326	1,755,127	110%
Depreciation and Amortization	490,549	201,893	143%
Interest Expense	480,126	707,706	32%

Sequoia's research and development expense increased $823,165, or 77%, from 2006 to 2007. The increase is attributable to additional personnel and related costs for new employees and consultants involved with technology development for deployments and ongoing maintenance of Sequoia's products in Wal-Mart on kiosks, with various retailers online and with various retailers in the form of hard good kits. In August 2007, Sequoia launched a kiosk deployment in Wal-Mart and began selling its first hard good kits for the Christmas season. Sequoia also began developing an online platform in 2007 for selling products online with initial deployment anticipated in the first quarter of 2008.

Selling and marketing expense increased $804,412, or 147%, from 2006 to 2007. The increase was attributable to Sequoia's increased marketing efforts directed at mass retailers and an increased presence at the Photo Marketing Association's ("PMA") annual trade show in February 2007. Additional personnel were hired to assist with development of marketing materials resulting in additional personnel and associated costs of approximately $725,000. An additional $80,000 was incurred in preparation for the PMA show to pay for floor space, booth rental and set up at the trade show held in February 2007. Expenses were incurred during the last quarter of 2006 and the first quarter of 2007 for the PMA show.

Sequoia's general and administrative expense increased $1,922,199, or 110%, from 2006 to 2007. New business development and operations personnel and associated costs and sales materials accounted for approximately $801,000 of the increase. Other costs associated with additional personnel such as health care, office furniture, computers, phones and other infrastructure costs across all departments totaled approximately $235,000. Approximately $303,000 of the increase was attributable to an increase of contract labor associated with platform (online and point-of-scan offerings) and product development. An increase of approximately $115,000 was attributable to increased professional consulting services provided by accounting, financial and legal services associated with Sequoia's funding activities and pursuit of the Merger Agreement with Secure Alliance. Sequoia's lease payments increased as the company took out more space to house new employee growth by approximately $301,000. Travel and entertainment costs increased approximately $121,000 as Sequoia pursued business opportunities. Equipment taxes, licensing and telephone expenses increased by $56,000, all as a result of added personnel.

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Depreciation expense increased $288,656, or 143% from 2006 to 2007 as a result of purchasing computer equipment deployed to fulfill product for new customer accounts and for office furniture and equipment for new employees which began to be depreciated by Sequoia.

Sequoia's interest expense decreased from $707,706 in 2006 to $480,126 in 2007 due to the conversion of its convertible debt into equity during 2007. To fund operations, Sequoia undertook a large private equity offering consisting of 12-month convertible debt, bearing interest at 10%. The offering was taken in its entirety by Amerivon, who invested a total of $830,000. In August of 2006, Amerivon invested an additional $1,560,000 in a convertible debt offering, bearing interest at 9%, intended to bridge Sequoia to a subsequent preferred equity offering targeting $5 to $7 million.

In December 2006, Sequoia entered into various short-term loans with members of Sequoia totaling $265,783 to fund operations until the funding transaction with Amerivon closed. These loans bore interest at 10% per annum and were payable on or before December 31, 2007. In May 2007, these loans were repaid.

Liquidity and Capital Resources.

	2007	2006
Statements of Cash Flows		
Cash Flows from Operating Activities	$ (5,513,316)	$ (1,890,640)
Cash Flows from Investing Activities	(577,295)	(414,995)
Cash Flows from Financing Activities	6,780,988	2,464,288

Sequoia anticipates that its current cash, cash equivalents, funds from the Loan Agreement with Secure Alliance and cash generated from operations will be sufficient to meet its needs for the next year of operations. If Sequoia does not close the Merger Agreement with Secure Alliance, it will be required to significantly reduce operating expenses to continue operations or raise additional outside capital. Sequoia can provide no guaranty that it will be able to raise additional outside capital and such funding would likely have a dilutive effect on Sequoia's current owners.

Operating Activities. For 2007, net cash used in operating activities was $(5,513,316) compared to $(1,890,640) in 2006. The change was due primarily to Sequoia's pursuit of new customers and development of additional delivery methods for its software technology which required substantial additional human, equipment and property resources.

Investing Activities. For 2007, Sequoia's cash flows from investing activities was $(577,295) compared to $(414,995) in 2006. The change resulted primarily as a result of purchasing property and equipment to allow for the fulfillment of products for customers and anticipated customers.

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Financing Activities. Sequoia has elected to grow its business through the use of outside capital beyond what has been available from operations to capitalize on the growth in the digital imaging industry. During the first half of 2006 Sequoia undertook a private equity offering consisting of 12-month convertible debt, bearing interest at 10%. The offering was taken in its entirety by Amerivon, who invested a total of $830,000. At the time of the investment, Amerivon placed a member on Sequoia's Board of Managers. In August of 2006, Amerivon invested an additional $1,560,000 in a convertible debt offering, bearing interest at 9%, intended to bridge Sequoia to a subsequent preferred equity offering targeting $5 to $7 million. During the first quarter of 2007, Amerivon provided additional bridge financing of $500,000 and an additional $535,000 of bridge financing during the second quarter of 2007. In May 2007, Sequoia closed the preferred equity offering with Amerivon at which time they converted approximately $2.4 million in aggregate convertible debt held by Amerivon, together with accumulated interest into common units of Sequoia. Sequoia also provided an additional $4.7 million in cash, which, along with $1.5 million of the bridge financing principle provided during 2007, plus accumulated interest, was used to purchase a total of $6.2 million worth of Sequoia's Series B preferred. Upon the closing of the Series B preferred offering, Amerivon placed a second member on Sequoia's Board of Managers.

In anticipation of closing the Merger Agreement, Sequoia entered into a Loan Agreement with Secure Alliance whereby Secure Alliance agreed to extend (and has extended) to Sequoia $2.5 million to provide operating capital through the closing of the transaction. A total of $1 million was loaned to Sequoia during 2007, with an additional $1.5 million being loaned in 2008.

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SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

We are providing the following selected financial information to assist you in your analysis of the financial aspects of the Merger. The Sequoia balance sheet data as of December 31, 2006 and 2007 and the statement of operations data for the years ended December 31, 2006 and 2007 are derived from audited Sequoia financial statements and are included elsewhere in this proxy statement. The Sequoia balance sheet data as of December 31, 2005 and the statement of operations data, except for basic and diluted net income per unit, for the year ended December 31, 2005 are derived from audited financial statements of Sequoia not included in this proxy statement. The Sequoia balance sheet data as of December 31, 2003 and 2004 and the statement of operations data for the years ended December 31, 2003 and 2004 are derived from unaudited financial statements of Sequoia not included in this proxy statement.

Our balance sheet data as of September 30, 2006 and 2007 and the statement of operations data for the years ended September 30, 2005, 2006 and 2007 are derived from our audited financial statements and are included elsewhere in this proxy statement. Our balance sheet data as of September 30, 2003, 2004 and 2005 and the statement of operations data for the years ended September 30, 2003 and 2004 are derived from our audited financial statements not included in this proxy statement.

Our balance sheet data as of December 31, 2007 and the statement of operations data for the three months ended December 31, 2007 and 2006 are derived from our unaudited interim financial statements, which are included elsewhere in this proxy statement. In the opinion of management, the unaudited interim financial statements include all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of such financial statements. The results of operations for the three months ended December 31, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year or any future period.

The selected financial information of Sequoia and Secure Alliance is only a summary and should be read in conjunction with each company's historical financial statements and notes and "The Transactions - Sequoia's Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere herein. The historical results included below and elsewhere in this proxy statement may not be indicative of the future performance of Sequoia, Secure Alliance, or the combined company resulting from the business combination.

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Sequoia's Selected Historical Financial Information

	Year Ended December 31,				
	2003	2004	2005	2006	2007
Statement of Operations Data:					
Revenue	$ -	$ 750,050	$ 1,487,269	$ 739,200	$ 541,856
Net income (loss)	(154,572)	(258,883)	170,032	(3,535,935)	(7,339,401)
Deemed distribution on Series B redeemable convertible preferred units	-	-	-	-	(190,000)
Distributions on Series B redeemable convertible preferred units	-	-	-	-	(308,251)
Net income (loss) applicable to common units	(154,572)	(258,883)	170,032	(3,535,935)	(7,837,652)
Basic and diluted net loss per common unit	(0.01)	(0.01)	0.01	(0.16)	(0.30)

	As of December 31,				
	2003	2004	2005	2006	2007
Balance Sheet Data:					
Cash	$ 78,339	$ (425)	$ 10,039	$ 168,692	$ 859,069
Working capital (deficit)	57,111	(44,690)	517,077	(2,661,857)	(1,089,039)
Total assets	173,714	99,720	808,496	1,265,211	2,854,189
Long-term liabilities	155,319	273,941	-	-	294,450
Redeemable convertible preferred stock	-	-	-	-	6,603,182
Total members' equity (deficit)	(2,832)	(261,715)	586,299	(2,171,457)	(6,901,051)

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Secure Alliance's Selected Historical Financial Information

	Year Ended September 30,					Three Months Ende December 31,	
	2003	2004	2005	2006	2007	2006	200
Statement of Operations Data:							
Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$
Income (loss) from continuing operations	(4,367,185)	14,606,170	(8,359,530)	(1,073,065)	(7,337,377)	(6,716,455)	(160
Income (loss) from continuing operations per share							
Basic	(0.25)	0.84	(0.41)	(0.03)	(0.37)	(0.34)	
Diluted	(0.25)	0.45	(0.41)	(0.03)	(0.37)	(0.34)	

	As of September 30,					As of December 31,
	2003	2004	2005	2006	2007	2007
Balance Sheet Data:						
Cash and cash equivalents	$ 915,097	$ 258,120	$ 1,003,663	$ 1,264,463	$ 882,116	$ 2,232,093
Working capital (deficit)	(20,335,776)	1,938,940	3,731,219	7,673,181	12,627,895	12,385,535
Total assets	14,430,201	10,778,244	17,536,528	19,085,039	12,773,296	12,637,158
Total shareholders' equity (deficit)	(17,678,603)	2,588,449	2,263,318	7,677,181	12,631,895	12,389,535

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SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION OF SEQUOIA AND SECURE ALLIANCE

The Merger will be accounted for as a reverse acquisition under the purchase method of accounting. Sequoia will be treated as the continuing reporting entity for accounting purposes. The assets and liabilities of Secure Alliance will be recorded, as of the completion of the Merger, at fair value, which is considered to approximate historical cost, and added to those of Sequoia.

We have presented below selected unaudited pro forma combined financial information that reflects the recapitalization of Sequoia and is intended to provide you with a better picture of what our business might have looked like had Sequoia and Secure Alliance actually been combined as of December 31, 2007. The selected unaudited pro forma combined financial information does not reflect the effect of any cost savings that may result from the Merger. You should not rely on the selected unaudited pro forma combined financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the Merger. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma combined condensed financial statements and related notes thereto included elsewhere in this proxy statement.

	Year Ended December 31, 2007(1)(2)
Revenues	$ 541,856
Net loss from continuing operations applicable to common stockholders	(16,286,767)
Loss from continuing operations per share - basic and diluted	(0.29)

	At December 31, 2007(2)(3)
Total assets	$ 13,219,983
Total current liabilities	2,105,231
Long-term liabilities, net of current portion	294,450
Redeemable convertible preferred stock	-
Total shareholders’ equity	10,820,302

Notes:

(1) Combines the year ended December 31 of Sequoia with the year ended September 30 of Secure Alliance.

(2) Assumes the conversion of Sequoia preferred units to Sequoia common units immediately prior to the closing of the Merger. The conversion includes an additional 1,525,000 common units that Sequoia has agreed to issue upon conversion, in order to induce conversion. Also assumes the exercise of 1,727,605 warrants of Sequoia at an exercise price of $0.24 immediately prior to the closing of the Merger.

(3) Assumes that certain Secure Alliance assets will be distributed to the Secure Alliance stockholders in the form of a cash Dividend.

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COMPARATIVE PER SHARE DATA

The following table sets forth selected historical per share information of Sequoia and Secure Alliance and unaudited pro forma combined per share ownership information of Sequoia and Secure Alliance after giving effect to the Merger. You should read this information in conjunction with the selected summary historical financial statement of Sequoia and Secure Alliance and related notes that are included elsewhere in this proxy statement. The unaudited Sequoia and Secure Alliance pro forma combined financial per share information for the year ended December 31, 2007 is derived from, and should be read in conjunction with, the unaudited pro forma combined condensed financial statements and related notes included elsewhere in this proxy statement.

The unaudited pro forma combined per share information does not purport to represent what the actual results of operations of Sequoia or Secure Alliance would have been had the companies been combined or to project the Sequoia or Secure Alliance results of operations that may be achieved after the Merger.

	Sequoia	Secure Alliance	Combined Company
Number of shares of common stock outstanding upon consummation of the Merger(2)(4):			48,619,780
Percentage of shares that will be held by Sequoia and Secure Alliance stockholders after completion of the Merger	80.01%	19.99%	
Net income (loss) from continuing operations per share - historical			
Year ended December 31, 2003	(0.01)		
Year ended December 31, 2004	(0.01)		
Year ended December 31, 2005	0.01	(0.41)	
Year ended December 31, 2006	(0.16)	(0.03)	
Year ended December 31, 2007	(0.30)	(0.37)	
Net income (loss) from continuing operations per share - pro forma(1)(2)(4):			
Year ended December 31, 2007			(0.29)
Book value per share - pro forma(1)(2)(3)(4):			
At December 31, 2007	n/a(5)	0.64	0.22

Notes:

(1) Combines the year ended December 31 of Sequoia with the year ended September 30 of Secure Alliance.

(2) Assumes the conversion of Sequoia preferred units to Sequoia common units immediately prior to the closing of the Merger. The conversion includes an additional 1,525,000 common units that Sequoia has agreed to issue upon conversion, in order to induce conversion. Also assumes the exercise of 1,727,605 warrants of Sequoia at an exercise price of $0.24 immediately prior to the closing of the Merger.

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(3) Assumes that certain Secure Alliance assets will be distributed to the Secure Alliance stockholders in the form of a cash Dividend.

(4) Assumes a 1-for-2 reverse stock split of Secure Alliance's common stock.

(5) Sequoia had a members' deficit at December 31, 2007.

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UNAUDITED PRO FORMA CONDENSED COMBINED
FINANCIAL STATEMENTS

The following unaudited proforma condensed combined balance sheet aggregates the balance sheet of Secure Alliance and the balance sheet of Sequoia as of December 31, 2007, accounting for the transaction as a recapitalization of Sequoia with the issuance of shares for the net assets of Secure Alliance (a reverse acquisition) and using the assumptions described in the following notes, giving effect to the transaction, as if the transaction had occurred as of December 31, 2007. The transaction was not completed as of December 31, 2007.

The following unaudited proforma condensed combined statement of operations combines the results of operations of Sequoia for the year ended December 31, 2007 and Secure Alliance for the year ended September 30, 2007, as if the transaction had occurred as of October 1, 2006.

The proforma condensed combined financial statements should be read in conjunction with the separate financial statements and related notes thereto of Sequoia and Secure Alliance. These proforma financial statements are not necessarily indicative of the combined financial position, had the acquisition occurred on the dates indicated above, or the combined results of operations which might have existed for the periods indicated or the results of operations as they may be in the future.

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Unaudited Pro Forma Condensed Combined Balance Sheet
December 31, 2007

Assets	Sequoia	Secure Alliance		Pro Forma Adjustments	Pro Forma Combined
Current assets:					
Cash	$ 859,069	$ 2,232,093	[C]	$ 414,625	$ 3,505,787
Certificates of deposit	-	8,900,000	[G]	(1,300,000)	7,600,000
Marketable securities available-for-sale	-	363,960	[G]	(363,960)	-
Accounts receivable	448,389	22,029	[G]	(22,029)	448,389
Note receivable	-	1,000,000	[H]	(1,000,000)	-
Inventory	21,509	-			21,509
Prepaid expenses	100,799	115,076			215,875
Deferred costs	294,602	-			294,602
Deposits and other current assets	44,201	-			44,201
Total current assets	1,768,569	12,633,158			12,130,363
Property and equipment, net	990,523	-			990,523
Intangible assets, net	74,689	-			74,689
Other Assets	20,408	4,000			24,408
Total assets	$ 2,854,189	$ 12,637,158			$ 13,219,983
Liabilities and Members' Equity (Deficit)					
Current liabilities:					
Accounts payable	$ 75,118	$ 51,722			$ 126,840
Accrued liabilities	823,772	195,901			1,019,673
Dividends payable	308,251	-			308,251
Current portion of capital leases	118,288	-			118,288
Current portion of deferred rent	38,580	-			38,580
Note payable	1,000,000	-	[H]	$ (1,000,000)	-
Deferred revenue	493,599	-			493,599
Total current liabilities	2,857,608	247,623			2,105,231
Deferred rent	222,611	-			222,611
Capital lease obligations, net of current portion	71,839	-			71,839

Total liabilities	3,152,058	247,623			2,399,681
Series B redeemable convertible preferred units, no par value, 12,000,000 units authorized; 8,804,984 outstanding, (liquidation preference of $6,603,738)	6,603,182	-	[B]	(6,603,182)	-

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Commitments and contingencies					
Members' equity (deficit):					
Series A convertible preferred units, no par value, 3,746,485 units authorized, 3,533,720 units outstanding (liquidation preference of $474,229)	474,229	-	[B]	(474,229)	-
Common units, no par value, 90,000,000 units authorized; 29,070,777, units outstanding	4,211,737	-	[B]	8,053,411	-
			[C]	414,625	
			[F]	(12,679,773)	
Common stock, $.01 par value, authorized 100,000,000 shares; issued and outstanding 19,441,524 shares	-	194,415	[A]	(97,208)	486,198
			[D]	388,990	
Additional paid-in capital	-	30,067,790	[A]	97,208	22,897,122
			[G]	(1,622,029)	
			[D]	(388,990)	
			[F]	12,679,773	
			[E]	(17,936,630)	
Accumulated deficit	(11,587,017)	(17,936,630)	[E]	17,936,630	(12,563,017)
			[B]	(976,000)	
Accumulated other comprehensive income	-	63,960	[G]	(63,960)	-
Total members' equity (deficit)	(6,901,051)	12,389,535			10,820,302
Total liabilities and members' equity (deficit)	$ 2,854,189	$ 12,637,158			$ 13,219,983

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Unaudited Pro Forma Condensed Combined Statements of Operations

	Sequoia Year Ended December 31, 2007	Secure Alliance Year Ended September 30, 2007		Pro Forma Adjustments	Pro Forma Combined
Sales	$ 541,856	$ -			$ 541,856
Operating expense:					
Cost of sales	57,068	-			57,068
Research and development	1,890,852	-			1,890,852
Selling and marketing	1,351,860	-			1,351,860
General and administrative	3,677,326	1,333,467			5,010,793
Depreciation and amortization	490,549	-			490,549
Total operating expense	7,467,655	1,333,467			8,801,122
Income (loss) from operations	(6,925,799)	(1,333,467)			(8,259,266)
Other income (expense):					
Amortization of debt discount and deferred financing costs	-	(6,508,963)			(6,508,963)
Interest income	66,524	580,861	[I]	$ (52,000)	595,385
Interest expense	(480,126)	-			(480,126)
Total other income (expense)	(413,602)	(5,928,102)			(6,393,704)
Loss before income taxes and discontinued operations	(7,339,401)	(7,261,569)			(14,652,970)
Income tax expense	-	159,546			159,546
Loss from continuing operations	(7,339,401)	(7,421,115)			(14,812,516)
Preferred dividends and deemed dividends	(498,251)	-	[B]	(976,000)	(1,474,251)
Net loss from continuing operations	$ (7,837,652)	$ (7,421,115)			$ (16,286,767)

applicable to common unit/stockholders					
Basic earnings (loss) per share:					
Loss from continuing operations	(0.03)			(0.29)	
		(300)	(194)		(655)

Equity in income of unconsolidated entities	**(973)**	(1,416)	(1,028)
Distributions of income from unconsolidated entities	**1,004**	2,110	2,558
Changes in assets and liabilities			
Tenant receivables and accrued revenue, net	**(7,912)**	(1,278)	938
Deferred costs and other assets	**(14,063)**	(8,887)	(13,512)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	**1,257**	(12,122)	14,393
Net cash provided by operating activities	**277,640**	336,434	350,703
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired	**(168,600)**		
Capital expenditures, net	**(80,292)**	(93,292)	(67,841)
Restricted cash reserves for future capital expenditures	**(9,161)**		
Net proceeds from sale of assets	**24,976**		
Investments in unconsolidated entities	**(2,492)**	(2,975)	(5,109)
Distributions of capital from unconsolidated entities	**1,137**	3,659	1,399
Net cash used in investing activities	**(234,432)**	(92,608)	(71,551)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Distributions to SPG, net	**(1,060,187)**	(241,430)	(169,651)
Distributions to noncontrolling interest holders in properties	**(860)**	(349)	(179)
Redemption of limitited partner units	**(31)**		
Distributions on common shares/units	**(94,110)**		
Proceeds from issuance of debt, net of transaction costs	**1,452,385**	15,860	57,866

Repayments of debt including prepayment penalties		**(257,494)**	(23,036)	(158,813)
Net cash provided by (used in) financing activities		**39,703**	(248,955)	(270,777)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**82,911**	(5,129)	8,375
CASH AND CASH EQUIVALENTS, beginning of year		**25,857**	30,986	22,611
CASH AND CASH EQUIVALENTS, end of year	**$**	**108,768**	$ 25,857	$ 30,986

The accompanying notes are an integral part of these statements.

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Washington Prime Group Inc.

Consolidated and Combined Statements of Equity

(Dollars in thousands, except per share amounts)

	Common Stock	Capital in Excess of Par Value	SPG Equity	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2011	$	$	$ 1,621,659	$	$ 1,621,659	$ 330,908	$ 1,952,567
Distributions to SPG, net			(127,895)		(127,895)	(26,027)	(153,922)
Distributions to noncontrolling interest holders in properties						(179)	(179)
Net income			129,731		129,731	26,659	156,390
Balance, December 31, 2012			1,623,495		1,623,495	331,361	1,954,856
Distributions to SPG, net			(213,807)		(213,807)	(43,509)	(257,316)
Distributions to noncontrolling interest holders in properties and other						(349)	(349)
Net income			155,481		155,481	31,853	187,334
Balance, December 31, 2013			1,565,169		1,565,169	319,356	1,884,525
Issuance of shares in connection with separation	16	711,265	(711,281)				
Issuance of limited partner units						22,464	22,464
Redemption of limited partner units						(31)	(31)
Noncontrolling interest in property (see Note 4)						1,017	1,017
Equity-based compensation						1,789	1,789
Adjustments to noncontrolling interests		11,692			11,692	(11,692)	
Distributions to SPG, net(1)			(878,209)		(878,209)	(181,978)	(1,060,187)
Distributions on common shares/units ($0.50 per common share/unit)				(77,594)	(77,594)	(16,516)	(94,110)
Purchase of noncontrolling interest						(845)	(845)
Other		(2,036)			(2,036)		(2,036)
Net income			24,321	145,708	170,029	35,426	205,455
Balance, December 31, 2014	**$ 16**	**$ 720,921**	**$**	**$ 68,114**	**$ 789,051**	**$ 168,990**	**$ 958,041**

(1) Amount includes approximately $1.0 billion of proceeds on new indebtedness retained by SPG L.P. as part of the separation (see Note 6).

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

1. Organization

Washington Prime Group Inc. ("WPG" or the "Company") is an Indiana corporation that operates as a self-administered and self-managed real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended. REITs will generally not be liable for federal corporate income taxes as long as they continue to distribute not less than 100% of their taxable income and satisfy certain other requirements. Washington Prime Group, L.P. ("WPG L.P.") is our majority-owned partnership subsidiary that owns, through its affiliates, all of our real estate properties and other assets. WPG owns, develops and manages retail real estate properties. As of December 31, 2014, our assets consisted of interests in 97 shopping centers in the United States, consisting of strip centers and malls.

WPG was created to hold the strip center business and smaller enclosed malls of Simon Property Group, Inc. ("SPG") and its subsidiaries. On May 28, 2014, WPG separated from SPG through the distribution of 100% of the outstanding shares of WPG to the SPG shareholders in a tax-free distribution. Prior to the separation, WPG was a wholly owned subsidiary of SPG. As described in Note 2, WPG's results prior to the separation are presented herein on a carveout basis. Prior to or concurrent with the separation, SPG engaged in certain formation transactions that were designed to consolidate the ownership of its interests in 98 properties ("SPG Businesses") and distribute such interests to WPG and its operating partnership, WPG L.P. Pursuant to the separation agreement, SPG distributed 100% of the common shares of WPG on a pro rata basis to SPG's shareholders as of the record date.

Unless the context otherwise requires, references to "we", "us" and "our" refer to WPG, WPG L.P. and entities in which WPG (or an affiliate) has a material ownership on financial interest, on a consolidated basis, after giving effect to the transfer of assets and liabilities from SPG as well as to the SPG Businesses prior to the date of the completion of the separation. Before the completion of the separation, SPG Businesses were operated as subsidiaries of SPG, which operates as a REIT.

At the time of the separation and distribution, WPG owned a percentage of the outstanding units of partnership interest, or units, of WPG L.P. that is approximately equal to the percentage of outstanding units of partnership interest of Simon Property Group, L.P. ("SPG L.P.") owned by SPG, with the remaining units of WPG L.P. being owned by the limited partners who were also limited partners of SPG L.P. as of the May 16, 2014 record date. The units in WPG L.P. are convertible by their holders for WPG common shares on a one-for-one basis or, at WPG's option, into cash. Before the separation, we had not conducted any business as a separate company and had no material assets or liabilities. The operations of the business transferred to us by SPG on the spin-off date are presented as if the transferred business was our business for all historical periods described and at the carrying value of such assets and liabilities reflected in SPG's books and records. Additionally, the financial statements reflect the common shares and units outstanding at the separation date as outstanding for all periods prior to the separation.

Prior to the separation, WPG entered into agreements with SPG under which SPG provides various services to us, including accounting, asset management, development, human resources, information technology, leasing, legal, marketing, public reporting and tax. The charges for the services are based on an hourly or per transaction fee arrangement and pass-through of out-of-pocket costs (see Note 10).

At the time of the separation, our assets consisted of interests in 98 shopping centers. In addition to the above properties, the combined historical financial statements include interests in three shopping

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

1. Organization (Continued)

centers held within a joint venture portfolio of properties which were sold during the first quarter of 2013 as well as one additional shopping center which was sold by that same joint venture on February 28, 2014.

We derive our revenues primarily from retail tenant leases, including fixed minimum rent leases, overage and percentage rent leases based on tenants' sales volumes, offering property operating services to our tenants and others, including energy, waste handling and facility services, and reimbursements from tenants for certain recoverable expenditures such as property operating, real estate taxes, repair and maintenance, and advertising and promotional expenditures.

We seek to enhance the performance of our properties and increase our revenues by, among other things, securing leases of anchor and inline tenant spaces, re-developing or renovating existing properties to increase the leasable square footage, and increasing the productivity of occupied locations through aesthetic upgrades, re-merchandising and/or changes to the retail use of the space.

Merger with Glimcher Realty Trust

On January 15, 2015, the Company acquired Glimcher Realty Trust ("Glimcher"), pursuant to a definitive agreement and plan of merger with Glimcher and certain affiliated parties of each dated September 16, 2014, (the "Merger Agreement"), in a stock and cash transaction valued at approximately $4.2 billion, including the assumption of debt (the "Merger"). Prior to the Merger, Glimcher was a Maryland REIT and a recognized leader in the ownership, management, acquisition and development of retail properties, including mixed-use, open-air and enclosed regional malls as well as outlet centers. As of December 31, 2014, Glimcher owned material interests in and managed 25 properties with total gross leasable area of approximately 17.2 million square feet (unaudited), including the two properties sold to SPG concurrent with the Merger noted below. Prior to the Merger, Glimcher's common shares were listed on the NYSE under the symbol "GRT."

Under the terms of the Merger, which was unanimously approved by the Board of Directors of the Company and the Board of Trustees of Glimcher, Glimcher common shareholders received, for each Glimcher common share, $14.02 consisting of $10.40 in cash and 0.1989 of a share of the Company's common stock valued at $3.62 per Glimcher common share, based on the closing price of the Company's common stock on the Merger closing date. Approximately 29.9 million shares of WPG common stock were issued to Glimcher shareholders in the Merger as noted below. Additionally included in consideration are operating partnership units and preferred stock as noted below. In connection with the closing of the Merger, an indirect subsidiary of WPG was merged into Glimcher's operating partnership. In the Merger, we acquired 23 shopping centers comprised of approximately 15.8 million square feet (unaudited) of gross leasable area and assumed additional mortgages on 16 properties with a fair value of approximately $1.3 billion. The combined company, to be renamed WP Glimcher Inc. (pending shareholder approval), is comprised of approximately 68 million square feet of gross leasable area (compared to approximately 53 million square feet (unaudited) for the Company as of December 31, 2014) and has a combined portfolio of approximately 120 properties.

As described in Amendment No. 1 to our Registration Statement on Form S-4 filed on November 24, 2014 pertaining to the Merger (the "Form S-4"), in the Merger, the preferred stock of Glimcher was converted into preferred stock of WPG and each outstanding unit of Glimcher's operating partnership was

Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

1. Organization (Continued)

converted into 0.7431 of a unit of WPG LP. Further, each outstanding stock option in respect of Glimcher common stock was converted into a WPG option, and certain other Glimcher equity awards were assumed by WPG and converted into equity awards in respect of WPG common shares.

Concurrent with the execution of the Merger agreement, the Company entered into a definitive agreement with SPG under which SPG acquired Jersey Gardens in Elizabeth, New Jersey, and University Park Village in Fort Worth, Texas, properties previously owned by Glimcher, for an aggregate purchase price of $1.09 billion, including SPG's assumption of $405.0 million of associated mortgage indebtedness. Completion of the sale of these properties to SPG (the "Property Sale") occurred concurrent with the closing of the Merger.

On September 16, 2014, in connection with the execution of the Merger Agreement, WPG entered into a debt commitment letter, which was amended and restated on September 23, 2014 pursuant to which the initial commitment parties agreed to provide up to $1.25 billion in a senior unsecured bridge loan facility (the "Bridge Loan"), with WPG borrowing $1.19 billion under the facility at Merger closing. On October 6, 2014, certain financial institutions became parties to the debt commitment letter by way of a joinder agreement and were assigned a portion of the initial commitment parties' commitments thereunder.

The Bridge Loan matures on January 14, 2016, the date that is 364 days following the closing date of the Merger. The interest rate payable on amounts outstanding under the facility is equal to three-month LIBOR plus an applicable margin based on WPG's credit rating, and such interest rate increases on the 180th and 270th days following the consummation of the Merger. In addition, an increasing duration fee will be payable on the 180th and 270th days following the consummation of the Merger on the outstanding principal amount, if any, under the facility. The facility will not amortize and any amounts outstanding will be repaid in full on the maturity date. The facility contains events of default, representations and warranties and covenants that are substantially identical to those contained in WPG's existing credit agreement (subject to certain exceptions set forth in the debt commitment letter).

Related to the Merger completed on January 15, 2015, the Company issued 29,868,701 common shares, 4,700,000 shares of 8.125% Series G Cumulative Redeemable Preferred Stock, 4,000,000 shares of 7.5% Series H Cumulative Redeemable Preferred Stock, 3,800,000 shares of 6.875% Series I Cumulative Redeemable Preferred Stock, 1,621,695 common units of WPG L.P.'s limited partnership interest, and 130,592 WPG LP Series I-1 Preferred Units.

The cash portion of the Merger consideration was funded by the sale of the two properties to SPG and draws under the $1.25 billion bridge facility, the outstanding balance of which may potentially be repaid with proceeds from future joint ventures with institutional partners, other assets sales and/or capital markets transactions. During the year ended December 31, 2014, the Company incurred $8.8 million of costs related to the Merger, which are included in merger and transaction costs in the consolidated and combined statements of operations. Additionally, the Company incurred $3.9 million of Bridge Loan commitment and structuring fees, which are included in deferred costs and other assets as of December 31, 2014 in the consolidated and combined balance sheets. The Company incurred an additional $3.7 million of Bridge Loan commitment and funding fees in 2015 in connection with the funding of the Bridge Loan. Accordingly, the Company will record $7.6 million of loan cost amortization in 2015. Additional

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

1. Organization (Continued)

transaction costs totaling approximately $18.6 million were incurred in 2015 in connection with the closing of the Merger.

See "Litigation" section of Note 9 for a discussion of Merger-related litigation.

Condensed Pro Forma Financial Information (Unaudited)

The results of operations of acquired properties are included in the consolidated and combined statements of operations beginning on their respective acquisition dates. The following unaudited condensed pro forma financial information is presented as if the Merger and related transactions described above, which were completed on January 15, 2015, had been consummated on January 1, 2013. The unaudited condensed pro forma financial information assumes the 2014 acquisitions listed in Note 4 also occurred as of January 1, 2013. Additionally, an adjustment has been made to reflect the intended redemption of all of the outstanding Series G Preferred Shares as of January 1, 2013. The unaudited condensed pro forma financial information is for comparative purposes only and not necessarily indicative of what actual results of operations of the Company would have been had the Merger been consummated on January 1, 2013, nor does it purport to represent the results of operations for future periods.

The unaudited condensed pro forma financial information for the years ended December 31, 2014 and 2013 is as follows (amounts in thousands, except per share data):

	Year Ended December 31,	
	2014	**2013**
Total revenues	**$ 1,012,966**	$ 1,001,924
Net income from continuing operations	**$ 45,041**	$ 77,396
Net income from continuing operations attributable to common stockholders	**$ 26,092**	$ 44,711
Earnings per common share basic and diluted	**$ 0.14**	$ 0.24
Weighted average shares outstanding basic	**184,080**	183,908
Weighted average shares outstanding diluted	**216,141**	215,930

Preliminary Purchase Price Allocation (Unaudited)

We reflected the assets and liabilities of the properties acquired in the Merger at the estimated fair value on the January 15, 2015 acquisition date. The following table summarizes the purchase price

Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

1. Organization (Continued)

allocation for the acquisition, which is preliminary and subject to revision within the measurement period, not to exceed one year from the date of acquisition:

Investment properties	$ 4,063,688
Cash and cash equivalents	20,631
Tenant accounts receivable	12,929
Investment in and advances to unconsolidated real estate entities	15,307
Deferred costs and other assets (including intangibles)	299,606
Assets held-for-sale	3,658
Accounts payable, accrued expenses, intangibles, and deferred revenue	(149,873)
Distributions payable	(20,194)
Redeemable noncontrolling interests	(5,648)
Total assets acquired and liabilities assumed	4,240,104
Mortgage notes payable assumed	(1,698,526)
Net assets acquired	2,541,578
Less: Common shares issued	(497,475)
Less: Preferred shares issued	(203,970)
Less: Operating partnership units issued	(62,541)
Less: Gross proceeds from the Property Sale	(685,000)
Net cash paid for acquisition (through Bridge Loan)	$ 1,092,592

2. Basis of Presentation and Principles of Consolidation and Combination

The accompanying consolidated and combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated balance sheet as of December 31, 2014 includes the accounts of the Company and WPG L.P., as well as their wholly-owned subsidiaries.

Accounting for the Separation

The accompanying consolidated and combined statements of operations include the consolidated accounts of the Company and the combined accounts of SPG Businesses. Accordingly, the results presented for the year ended December 31, 2014 reflect the aggregate operations and changes in cash flows and equity of the SPG Businesses on a carve-out basis for the period from January 1, 2014 through May 27, 2014 and of the Company on a consolidated basis subsequent to May 27, 2014. The accompanying financial statements for the periods prior to the separation are prepared on a carve-out basis from the consolidated financial statements of SPG using the historical results of operations and bases of the assets and liabilities of the transferred businesses and including allocations from SPG. The financial statements were presented on a combined basis prior to the separation as the ownership interests in the SPG Businesses were under common control and ownership of SPG. All intercompany transactions have been eliminated in consolidation and combination.

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Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

2. Basis of Presentation and Principles of Consolidation and Combination (Continued)

For accounting and reporting purposes, the historical financial statements of WPG include the operating results of the SPG Businesses as if the SPG Businesses had been a part of WPG for all periods presented. Equity and income have been adjusted retroactively to reflect WPG's ownership interest and the noncontrolling interest holders' interest in the SPG Businesses as of the separation date as if such interests were held for all periods prior to the separation presented in the financial statements. WPG's earnings per common share have been presented for all historical periods as if the number of common shares and units issued in connection with the separation were outstanding during each of the periods prior to the separation presented.

For periods presented prior to the separation, our historical combined financial results reflect charges for certain SPG corporate costs and we believe such charges are reasonable; however, such results do not necessarily reflect what our expenses would have been had we been operating as a separate stand-alone public company. These charges are further discussed in Note 10. Costs of the services that were charged to us were based on either actual costs incurred or a proportion of costs estimated to be applicable to us. The historical combined financial information presented may therefore not be indicative of the results of operations, financial position or cash flows that would have been obtained if we had been an independent, stand-alone public company during the periods presented prior to the separation or of our future performance as an independent, stand-alone company. For joint venture or mortgaged properties, SPG has a standard management agreement for management, leasing and development activities provided to the properties. Management fees were based upon a percentage of revenues. For any wholly owned property that does not have a management agreement, SPG allocated the proportion of the underlying costs of management, leasing and development, in a manner that is materially consistent with the percentage of revenue-based management fees and/or upon the actual volume of leasing and development activity occurring at the property.

In connection with the separation, we incurred $38.9 million of expenses, including investment banking, legal, accounting, tax and other professional fees, which are included in spin-off costs for the year ended December 31, 2014 in the accompanying consolidated and combined statements of operations.

General

These consolidated and combined financial statements reflect the consolidation of properties that are wholly owned or properties in which we own less than a 100% interest but that we control. Control of a property is demonstrated by, among other factors, our ability to refinance debt and sell the property without the consent of any other partner or owner and the inability of any other partner or owner to replace us.

We also consolidate a variable interest entity, or VIE, when we are determined to be the primary beneficiary. Determination of the primary beneficiary of a VIE is based on whether an entity has (1) the power to direct activities that most significantly impact the economic performance of the VIE and (2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our determination of the primary beneficiary of a VIE considers all relationships between us and the VIE, including management agreements and other contractual arrangements. There have been no changes during 2014 in previous conclusions about whether an entity qualifies as a VIE or whether we are

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

2. Basis of Presentation and Principles of Consolidation and Combination (Continued)

the primary beneficiary of any previously identified VIE. During 2014, we did not provide financial or other support to a previously identified VIE that we were not previously contractually obligated to provide.

Investments in partnerships and joint ventures represent our noncontrolling ownership interests in properties. We account for these investments using the equity method of accounting. We initially record these investments at cost and we subsequently adjust for net equity in income or loss, which we allocate in accordance with the provisions of the applicable partnership or joint venture agreement and cash contributions and distributions, if applicable. The allocation provisions in the partnership or joint venture agreements are not always consistent with the legal ownership interests held by each general or limited partner or joint venture investee primarily due to partner preferences. We separately report investments in joint ventures for which accumulated distributions have exceeded investments in and our share of net income from the joint ventures within cash distributions and losses in partnerships and joint ventures, at equity in the consolidated and combined balance sheets. The net equity of certain joint ventures is less than zero because of financing or operating distributions that are usually greater than net income, as net income includes non-cash charges for depreciation and amortization, and WPG has committed to or intends to fund the venture.

As of December 31, 2014, our assets consisted of interests in 97 shopping centers. The consolidated and combined financial statements as of that date reflect the consolidation of 91 wholly-owned properties and five additional properties that are less than wholly-owned, but which we control or for which we are the primary beneficiary. We account for our interest in the remaining property, or the joint venture property, using the equity method of accounting, as we have determined that we have significant influence over its operations. We manage the day-to-day operations of the joint venture property, but have determined that our partner has substantive participating rights with respect to the assets and operations of the joint venture property.

We allocate net operating results of WPG L.P. to third parties and to us based on the partners' respective weighted average ownership interests in WPG L.P. Net operating results of WPG L.P. attributable to third parties are reflected in net income attributable to noncontrolling interests. Our weighted average ownership interest in WPG L.P. was 82.8%, 83.1% and 83.1% for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014 and 2013, our ownership interest in WPG L.P. was 82.4% and 83.1%, respectively. We adjust the noncontrolling limited partners' interests at the end of each period to reflect their interest in WPG L.P.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of 90 days or less to be cash and cash equivalents. Cash equivalents are carried at cost, which approximates fair value. Cash equivalents generally consist of commercial paper, bankers' acceptances, repurchase agreements, and money market deposits or securities. Financial instruments that potentially subject us to concentrations of credit risk include our cash and cash equivalents and our tenant receivables. We place our cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents may be in excess of FDIC and SIPC insurance limits.

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

3. Summary of Significant Accounting Policies (Continued)

Investment Properties

We record investment properties at cost. Investment properties include costs of acquisitions; development, predevelopment, and construction (including allocable salaries and related benefits); tenant allowances and improvements; and interest and real estate taxes incurred during construction. We capitalize improvements and replacements from repair and maintenance when the repair and maintenance extends the useful life, increases capacity, or improves the efficiency of the asset. All other repair and maintenance items are expensed as incurred. We capitalize interest on projects during periods of construction until the projects are ready for their intended purpose based on interest rates in place during the construction period. Capitalized interest for the years ended December 31, 2014, 2013 and 2012 was $283, $1,019 and $442, respectively.

We record depreciation on buildings and improvements utilizing the straight-line method over an estimated original useful life, which is generally 10 to 35 years. We review depreciable lives of investment properties periodically and we make adjustments when necessary to reflect a shorter economic life. We amortize tenant allowances and tenant improvements utilizing the straight-line method over the term of the related lease or occupancy term of the tenant, if shorter. We record depreciation on equipment and fixtures utilizing the straight-line method over seven to ten years.

We review investment properties for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of investment properties may not be recoverable. These circumstances include, but are not limited to, declines in a property's cash flows, ending occupancy or declines in tenant sales. We measure any impairment of investment property when the estimated undiscounted operating income before depreciation and amortization plus its residual value is less than the carrying value of the property. To the extent impairment has occurred, we charge to income the excess of carrying value of the property over its estimated fair value. We estimate fair value using unobservable data such as operating income, estimated capitalization rates, or multiples, leasing prospects and local market information. We may decide to sell properties that are held for use and the sale prices of these properties may differ from their carrying values. We also review our investments, including investments in unconsolidated entities, if events or circumstances change indicating that the carrying amount of our investments may not be recoverable. We will record an impairment charge if we determine that a decline in the fair value of the investments in unconsolidated entities is other-than-temporary. Changes in economic and operating conditions that occur subsequent to our review of recoverability of investment property and other investments in unconsolidated entities could impact the assumptions used in that assessment and could result in future charges to earnings if assumptions regarding those investments differ from actual results.

Investments in Unconsolidated Entities

Joint ventures are common in the real estate industry. We use joint ventures to finance properties, develop new properties, and diversify our risk in a particular property or portfolio of properties. We held unconsolidated joint venture ownership interests in one and 11 properties as of December 31, 2014 and 2013, respectively.

Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

3. Summary of Significant Accounting Policies (Continued)

Certain of our joint venture properties are subject to various rights of first refusal, buy-sell provisions, put and call rights, or other sale or marketing rights for partners which are customary in real estate joint venture agreements and the industry. We and our partners in these joint ventures may initiate these provisions (subject to any applicable lock up or similar restrictions), which may result in either the sale of our interest or the use of available cash or borrowings to acquire the joint venture interest from our partner.

Fair Value Measurements

Level 1 fair value inputs are quoted prices for identical items in active, liquid and visible markets such as stock exchanges. Level 2 fair value inputs are observable information for similar items in active or inactive markets, and appropriately consider counterparty creditworthiness in the valuations. Level 3 fair value inputs reflect our best estimate of inputs and assumptions market participants would use in pricing an asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate. We have no investments for which fair value is measured on a recurring basis using Level 3 inputs.

Note 6 includes a discussion of the fair value of debt measured using Level 2 inputs. Notes 3 and 4 include a discussion of the fair values recorded in purchase accounting, using Level 2 and Level 3 inputs. Level 3 inputs to our purchase accounting analyses include our estimations of net operating results of the property, capitalization rates and discount rates.

Purchase Accounting Allocation

We allocate the purchase price of acquisitions and any excess investment in unconsolidated entities to the various components of the acquisition based upon the fair value of each component which may be derived from various observable or unobservable inputs and assumptions. Also, we may utilize third party valuation specialists. These components typically include buildings, land and intangibles related to in-place leases and we estimate:

- the fair value of land and related improvements and buildings on an as-if-vacant basis,
- the market value of in-place leases based upon our best estimate of current market rents and amortize the resulting market rent adjustment into revenues,
- the value of costs to obtain tenants, including tenant allowances and improvements and leasing commissions, and
- the value of revenue and recovery of costs foregone during a reasonable lease-up period, as if the space was vacant.

Amounts allocated to building are depreciated over the estimated remaining life of the acquired building or related improvements. We amortize amounts allocated to tenant improvements, in-place lease assets and other lease-related intangibles over the remaining life of the underlying leases. We also estimate the value of other acquired intangible assets, if any, which are amortized over the remaining life of the underlying related intangibles.

Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

3. Summary of Significant Accounting Policies (Continued)

Use of Estimates

We prepared the accompanying consolidated and combined financial statements in accordance with GAAP. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reported period. Our actual results could differ from these estimates.

Segment Disclosure

Our primary business is the ownership, development and management of retail real estate. We have aggregated our operations, including malls and strip centers, into one reportable segment because they have similar economic characteristics and we provide similar products and services to similar types of, and in many cases, the same tenants.

New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU No. 2014-08 is effective prospectively for fiscal years beginning after December 15, 2014, but can be early-adopted. ASU No. 2014-08 also requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. We early adopted ASU No. 2014-08 and will apply the revised definition to all disposals on a prospective basis.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 revises GAAP by offering a single comprehensive revenue recognition standard instead of numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. ASU No. 2014-09 is effective for annual reporting periods beginning after December 31, 2016 and early adoption is not permitted. An entity has the option to apply the provisions of ASU No. 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. We have not yet selected a transition method, and we are currently evaluating the impact the adoption of ASU No. 2014-09 will have on our financial statements and related disclosures.

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Washington Prime Group Inc.

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3. Summary of Significant Accounting Policies (Continued)

Deferred Costs and Other Assets

Deferred costs and other assets include the following as of December 31, 2014 and 2013 as follows:

	2014	2013
Deferred financing and lease costs, net	**$ 83,911**	$ 48,612
In-place lease intangibles, net	**39,668**	25,467
Acquired above market lease intangibles, net	**17,237**	7,553
Mortgage and other escrow deposits	**22,339**	11,401
Prepaids, notes receivable and other assets, net	**7,728**	4,337
	$ 170,883	$ 97,370

Deferred Financing and Lease Costs

Our deferred costs consist primarily of financing fees we incurred in order to obtain long-term financing and internal and external leasing commissions and related costs. We record amortization of deferred financing costs on a straight-line basis over the terms of the respective loans or agreements. Our deferred leasing costs consist of fees charged by SPG for salaries and related benefits in connection with lease originations. We record amortization of deferred leasing costs on a straight-line basis over the terms of the related leases. Details of these deferred costs as of December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred financing and lease costs	**$ 142,451**	$ 94,784
Accumulated amortization	**(58,540)**	(46,172)
Deferred financing and lease costs, net	**$ 83,911**	$ 48,612

We report amortization of deferred financing costs, amortization of premiums, and accretion of discounts as part of interest expense. Amortization of deferred leasing costs is a component of depreciation and amortization expense. We amortize debt premiums and discounts, which are included in mortgages, over the remaining terms of the related debt instruments. These debt premiums or discounts arise either at the debt issuance or as part of the purchase price allocation of the fair value of debt assumed in acquisitions. The accompanying consolidated and combined statements of operations include amortization for the years ended December 31, 2014, 2013 and 2012 as follows:

	For the Year Ended December 31,		
	2014	2013	2012
Amortization of deferred financing costs	**$ 3,028**	$ 823	$ 1,231
Amortization of debt premiums, net of discounts	**(1,971)**	(509)	(1,361)
Amortization of deferred leasing costs	**12,504**	10,778	10,449

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3. Summary of Significant Accounting Policies (Continued)

Intangibles

In-place lease intangibles are amortized over the remaining life of the leases of the related property on the straight-line basis, which amortization is included within depreciation and amortization in the consolidated and combined statements of operations. The weighted average remaining life of in-place lease intangibles is approximately 5.3 years. The fair market value of above and below market leases is amortized into revenue over the remaining lease life as a component of reported minimum rents. The weighted average remaining life of these intangibles is approximately 7.4 years. The unamortized amount of below market leases was $35,808 and $10,458 as of December 31, 2014 and 2013, respectively, which is included in accounts payable, accrued expenses, intangibles and deferred revenues in the accompanying consolidated and combined balance sheets. The amount of amortization of above and below market leases, net for the years ended December 31, 2014, 2013 and 2012 was $809, $1,324 and $658, respectively. If a lease is terminated prior to the original lease termination, any remaining unamortized intangible is written off to earnings. Details of intangible assets as of December 31, 2014 and 2013 are as follows:

	2014	2013
In-place lease intangibles	**$ 59,297**	$ 38,534
Accumulated amortization	**(19,629)**	(13,067)
In-place lease intangibles, net	**$ 39,668**	$ 25,467

	2014	2013
Acquired above market lease intangibles	**$ 22,026**	$ 10,114
Accumulated amortization	**(4,789)**	(2,561)
Acquired above market lease intangibles, net	**$ 17,237**	$ 7,553

Estimated future amortization and the increasing (decreasing) effect on minimum rents for our above and below market leases as of December 31, 2014 are as follows:

	Below Market Leases	Above Market Leases	Impact to Minimum Rent, Net
2015	$ 4,107	$ (3,080)	$ 1,027
2016	4,072	(3,080)	992
2017	3,081	(2,541)	540
2018	3,079	(2,541)	538
2019	3,079	(2,564)	515
Thereafter	18,390	(3,431)	14,959
	$ 35,808	$ (17,237)	$ 18,571

Revenue Recognition

We, as a lessor, retain substantially all of the risks and benefits of ownership of the investment properties and account for our leases as operating leases. We accrue minimum rents on a straight-line basis over the terms of their respective leases. A large number of our retail tenants are also required to pay

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

3. Summary of Significant Accounting Policies (Continued)

overage rents based on sales over a stated base amount during the lease year. We recognize overage rents only when each tenant's sales exceed the applicable sales threshold. We amortize any tenant inducements as a reduction of revenue utilizing the straight-line method over the term of the related lease or occupancy term of the tenant, if shorter.

We structure our leases to allow us to recover a significant portion of our property operating, real estate taxes, repairs and maintenance, and advertising and promotion expenses from our tenants. A substantial portion of our leases, other than those for anchor stores, require the tenant to reimburse us for a substantial portion of our operating expenses, including common area maintenance, or CAM, real estate taxes and insurance. This significantly reduces our exposure to increases in costs and operating expenses resulting from inflation. Such property operating expenses typically include utility, insurance, security, janitorial, landscaping, food court and other administrative expenses. We accrue reimbursements from tenants for recoverable portions of all these expenses as revenue in the period the applicable expenditures are incurred. As of December 31, 2014 the vast majority of our shopping center leases receive a fixed payment from the tenant for the CAM component which is recorded as revenue when earned. When not reimbursed by the fixed-CAM component, CAM expense reimbursements are based on the tenant's proportionate share of the allocable operating expenses and CAM capital expenditures for the property. We also receive escrow payments for these reimbursements from substantially all our non-fixed CAM tenants and monthly fixed CAM payments throughout the year. We recognize differences between estimated recoveries and the final billed amounts in the subsequent year. These differences were not material in any period presented. Our advertising and promotional costs are expensed as incurred.

Allowance for Credit Losses

We record a provision for credit losses based on our judgment of a tenant's creditworthiness, ability to pay and probability of collection. In addition, we also consider the retail sector in which the tenant operates and our historical collection experience in cases of bankruptcy, if applicable. Accounts are written off when they are deemed to be no longer collectible. The activity in the allowance for credit losses during the years ended December 31, 2014, 2013 and 2012 is as follows:

	For the Year Ended December 31,		
	2014	**2013**	**2012**
Balance, beginning of year	$ 3,231	$ 3,867	$ 3,330
Acquisitions	312		14
Provision for credit losses	2,332	572	1,904
Accounts written off, net of recoveries	(2,486)	(1,208)	(1,381)
Balance, end of year	$ 3,389	$ 3,231	$ 3,867

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

3. Summary of Significant Accounting Policies (Continued)

Income and Other Taxes

Subsequent to the separation from SPG, we have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code and applicable Treasury regulations relating to REIT qualification. Prior to the separation from SPG, SPG Businesses historically operated under SPG's REIT structure. In order to maintain REIT status, the regulations require the entity to distribute at least 90% of taxable income to its owners and meet certain other asset and income tests as well as other requirements. We intend to continue to adhere to these requirements and maintain our REIT status and that of the REIT subsidiaries. As a REIT, we will generally not be liable for federal corporate income taxes as long as we continue to distribute in excess of 100% of our taxable income. Thus, we made no provision for federal income taxes in the accompanying consolidated and combined financial statements. If we fail to qualify as a REIT, we will be subject to tax at regular corporate rates for the years in which we failed to qualify. If we lose our REIT status we could not elect to be taxed as a REIT for four years unless our failure to qualify was due to reasonable cause and certain other conditions were satisfied.

We have also elected taxable REIT subsidiary, or TRS, status for some of our subsidiaries. This enables us to provide services that would otherwise be considered impermissible for REITs and participate in activities that do not qualify as "rents from real property". For these entities, deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the temporary differences reverse. A valuation allowance for deferred tax assets is provided if we believe all or some portion of the deferred tax asset may not be realized. An increase or decrease in the valuation allowance that results from the change in circumstances that causes a change in our judgment about the realizability of the related deferred tax asset is included in income. As of December 31, 2014 and 2013, we had no deferred tax assets related to our TRS subsidiaries.

We are also subject to certain other taxes, including state and local taxes and franchise taxes, which are included in income and other taxes in the consolidated and combined statements of operations.

Noncontrolling Interests

Details of the carrying amount of our noncontrolling interests are as follows as of December 31, 2014 and 2013:

	2014	2013
Limited partners' interests in WPG L.P.	**$ 167,973**	$ 318,511
Noncontrolling interests in properties	**1,017**	845
Total noncontrolling interests	**$ 168,990**	$ 319,356

Net income attributable to noncontrolling interests (which includes limited partners' interests in WPG L.P. and noncontrolling interests in consolidated properties) is a component of consolidated and combined net income.

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

4. Real Estate Acquisitions and Dispositions

We acquire interests in properties to generate both current income and long-term appreciation in value. We acquire interests in individual properties or portfolios of retail real estate companies that meet our investment criteria and sell properties which no longer meet our strategic criteria. Unless otherwise noted below, gains and losses on these transactions are included in gain upon acquisition of controlling interests, sale or disposal of assets and interests in unconsolidated entities, and impairment charge on investment in unconsolidated entities, net in the accompanying consolidated statements of operations and comprehensive income. We expense acquisition and potential acquisition costs related to business combinations and disposition related costs as they are incurred. We incurred a minimal amount of transaction expenses during 2014, 2013 and 2012, excluding those related to the separation from SPG and Merger disclosed in Note 1.

Acquisition and disposition activity for the years ended December 31, 2014, 2013 and 2012 is highlighted as follows:

2014 Acquisitions

On December 1, 2014, we acquired our partner's 50 percent interest in Whitehall Mall, a shopping center located in Whitehall, Pennsylvania, for approximately $14.9 million in cash. The center is anchored by Sears, Kohl's, Bed Bath & Beyond, Gold's Gym, Buy Buy Baby, Raymour & Flanigan Furniture and Michaels. The property was previously accounted for under the equity method, but is now consolidated as it is wholly owned post-acquisition. The consolidation of this previously unconsolidated property resulted in a remeasurement of our previously held interest to fair value and a corresponding non-cash gain of approximately $10.5 million which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the accompanying consolidated and combined statements of operations.

On June 20, 2014, we acquired our partner's 50 percent interest in Clay Terrace, a lifestyle center located in Carmel, Indiana for approximately $22.9 million, paid by issuing 1,173,678 units of WPG L.P. The center is anchored by Dick's Sporting Goods, DSW and Whole Foods and includes several national and local retailers as well as a variety of dining options. Also included in the transaction is land available for development. The property was previously accounted for under the equity method, but is now consolidated as it is wholly owned post-acquisition. The consolidation of this previously unconsolidated property resulted in a remeasurement of our previously held interest to fair value and a corresponding non-cash gain of approximately $46.6 million which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the accompanying consolidated and combined statements of operations.

On June 18, 2014, we acquired our partner's interest in a portfolio of seven open-air shopping centers, consisting of four centers located in Florida, and one each in Indiana, Connecticut and Virginia, for approximately $162.0 million in cash. Also included in this transaction is land valued at approximately $5.1 million. Previously, we held between 32 percent to 42 percent legal ownership interests in the properties, but received substantially less economic benefit due to the partner's preferred capital allocation. The properties were previously accounted for under the equity method, but are now consolidated as four properties are wholly owned and three properties are approximately 88.2 percent owned post-acquisition. The consolidation of these previously unconsolidated properties resulted in a remeasurement of our previously held interest to fair value and a corresponding non-cash gain of

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

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4. Real Estate Acquisitions and Dispositions (Continued)

approximately $42.3 million which is included in gain upon acquisition of controlling interest and on sale of interests in properties in the accompanying consolidated and combined statements of operations. The source of funding for the acquisition was a borrowing under the Revolver (see Note 6).

We reflected the assets and liabilities of the above acquisition properties at the estimated fair value on the respective acquisition dates. The following table summarizes the purchase price allocation for the acquisitions, which has been further refined as of December 31, 2014; however, it remains preliminary and subject to revision within the measurement period, not to exceed one year from the date of acquisition, though we do not anticipate any material changes:

Investment properties	$ 471,293
Deferred costs and other assets (including intangibles)	67,530
Mortgage notes payable	(218,064)
Accounts payable, accrued expenses, intangibles, and deferred revenue	(39,866)
Other liabilities	(1,858)
Net assets acquired	279,035
Noncontrolling interest	(1,032)
Prior net cash distributions and losses	20,895
Gain on pre-existing interest	(99,375)
Fair value of total consideration transferred	199,523
Less: Units issued	(22,464)
Less: Cash acquired	(8,459)
Net cash paid for acquisitions	$ 168,600

On January 10, 2014, SPG acquired one of its partner's remaining interests in three properties that were contributed to WPG. The consideration paid for the partner's remaining interests in these three properties was approximately $4.6 million in cash. Two of these properties were previously consolidated and are now wholly owned. The remaining property is accounted for under the equity method.

2014 Dispositions

On July 17, 2014, we sold Highland Lakes Center, a wholly owned shopping center in Orlando, Florida, for net proceeds of $20.5 million, resulting in a gain of approximately $9.0 million, which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the accompanying consolidated and combined statements of operations.

On June 23, 2014, we sold New Castle Plaza, a wholly owned shopping center in New Castle, Indiana, for net proceeds of $4.4 million, resulting in a gain of approximately $2.4 million, which is included in gain upon acquisition of controlling interests and on sale of interests in properties in the accompanying consolidated and combined statements of operations.

On February 28, 2014, SPG disposed of its interest in one unconsolidated shopping center and recorded a gain of approximately $0.2 million, which is included in gain upon acquisition of controlling interest and on sale of interests in properties in the consolidated and combined statements of operations.

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

4. Real Estate Acquisitions and Dispositions (Continued)

This property is part of a portfolio of interests in properties, the remainder of which is included within those properties distributed by SPG to WPG on May 28, 2014.

2013 Dispositions

On February 21, 2013, SPG increased its economic interest in three unconsolidated shopping centers and subsequently disposed of its interests in those properties. The aggregate gain recognized on this transaction was approximately $14.2 million and is included in gain upon acquisition of controlling interests and on sale of interests in properties in the consolidated and combined statements of operations. These properties were part of a portfolio of interests in properties, the remainder of which is included within those properties distributed by SPG to WPG on May 28, 2014.

2012 Acquisition

On March 22, 2012, SPG acquired a controlling interest in Concord Mills Marketplace, a previously unconsolidated property, and recorded its acquisition of the interest using the acquisition method of accounting. Results of operations of this property have been included in the consolidated and combined results from the date of SPG's acquisition of its 100% interest in this property. Tangible and intangible assets and liabilities were established based on their estimated fair values at the date of acquisition. We amortize these amounts over the estimated life of the related depreciable components of investment property, typically no greater than 35 years, the terms of the applicable leases and the applicable debt maturity. The following table summarizes our final purchase price allocation to the amounts of assets acquired and liabilities assumed as a result of the acquisition:

Investment properties	$	29,978
Tenant receivables and accrued revenue, net		36
Deferred costs and other assets (including intangibles)		784
Total Assets	**$**	**30,798**
Mortgage notes payable	$	12,981
Accounts payable, accrued expenses, intangibles, and deferred revenues		1,473
Total Liabilities	**$**	**14,454**

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

5. Investment Properties

Investment properties consisted of the following as of December 31, 2014 and 2013:

	2014	2013
Land	**$ 765,593**	$ 659,808
Buildings and improvements	**4,461,873**	4,065,122
Total land, buildings and improvements	**5,227,466**	4,724,930
Furniture, fixtures and equipment	**65,199**	64,775
Investment properties at cost	**5,292,665**	4,789,705
Less accumulated depreciation	**2,113,929**	1,974,949
Investment properties at cost, net	**$ 3,178,736**	$ 2,814,756
Construction in progress included above	**$ 41,440**	$ 35,837

6. Indebtedness

Mortgage Debt

Total fixed-rate mortgage indebtedness at December 31, 2014 and 2013 was as follows:

	2014	2013
Face amount of mortgage loans	**$ 1,431,516**	$ 917,532
Premiums, net	**3,598**	1,082
Carrying value of mortgage loans	**$ 1,435,114**	$ 918,614

The mortgage debt had weighted average interest and maturity of 5.23% and 5.3 years at December 31, 2014 and weighted average interest and maturity of 5.87% and 4.0 years at December 31, 2013.

On December 1, 2014, resulting from our acquisition of the controlling interest in Whitehall Mall (see Note 4), we consolidated an additional mortgage with a fair value of $11.6 million.

On December 1, 2014, the Company repaid the $29.9 million mortgage on Village Park Plaza and $24.8 million mortgage on the Plaza at Buckland Hills through a $55.0 million borrowing under the Revolver.

On October 29, 2014, the Company repaid the $15.3 million mortgage on Lake View Plaza and $2.2 million mortgage on DeKalb Plaza through a $18.0 million borrowing under the Revolver.

On October 10, 2014, the Company restructured the $94.0 million mortgage on Rushmore Mall, splitting the principal balance into an "A Note" of $58.0 million and a "B Note" of $36.0 million. The maturity date of both notes was extended from June 1, 2016 to February 1, 2019 and the interest rate of both notes remains at 5.79%. Interest accrues on both notes, with payment due currently on the A Note and at maturity on the B Note. Under a sale or refinance, amounts of principal and interest due on the B Note may be forgiven if the sale or refinance proceeds are insufficient to repay the B Note. At closing,

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

6. Indebtedness (Continued)

the Company contributed $11.6 million to be applied towards closing costs and lender-held reserves, primarily for the funding of capital expenditures at the property. A return of 8% accumulates on this contribution, and payment of the accumulated return and repayment of the remaining contribution balance to the Company is senior to the repayment of the B Note.

On June 20, 2014, resulting from our acquisition of the controlling interest in Clay Terrace (see Note 4), we assumed an additional mortgage with a fair value of $117.5 million.

On June 19, 2014, we closed on an extension of the 5.84% fixed rate mortgage on Chesapeake Square with unpaid principal balance of $64.7 million and original maturity date of August 1, 2014. The new maturity date is February 1, 2017, with a one-year extension option subject to certain requirements.

On June 18, 2014, resulting from our acquisition of the controlling interest in a portfolio of seven open-air shopping centers (see Note 4), we assumed additional mortgages on four properties with a fair value of $88.9 million.

On June 5, 2014, we repaid the mortgage on Sunland Park Mall in the amount of $30.7 million (including prepayment penalty of $2.9 million, which is recorded in interest expense in the accompanying consolidated and combined statements of operations. The loan was due to mature on January 1, 2026. The repayment was funded through a borrowing on our credit facility (see below).

On February 20, 2014, West Ridge Mall refinanced its $64.6 million, 5.89% fixed rate mortgage maturing July 1, 2014 with a $54.0 million, 4.84% fixed rate mortgage that matures March 6, 2024. The new debt encumbers both West Ridge Mall and West Ridge Plaza.

On February 11, 2014, Brunswick Square refinanced its $76.5 million, 5.65% fixed rate mortgage maturing August 11, 2014 with a $77.0 million, 4.796% fixed rate mortgage that matures March 1, 2024.

In addition, during 2014 prior to May 28, 2014, mortgages were obtained on previously unencumbered properties as follows (in millions):

Property	Amount	Interest Rate	Type	Maturity
Muncie Mall	$ 37.0	4.19%	Fixed	4/1/2021
Oak Court Mall	40.0	4.76%	Fixed	4/1/2021
Lincolnwood Town Center	53.0	4.26%	Fixed	4/1/2021
Cottonwood Mall	105.0	4.82%	Fixed	4/6/2024
Westminster Mall	85.0	4.65%	Fixed	4/1/2024
Charlottesville Fashion Square	50.0	4.54%	Fixed	4/1/2024
Town Center at Aurora	55.0	4.19%	Fixed	4/1/2019
Total(1)	$ 425.0			

(1) Proceeds were retained by SPG as part of the separation (included in distributions to SPG, net in the accompanying consolidated and combined statement of equity for the year ended December 31, 2014).

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

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6. Indebtedness (Continued)

Unsecured Debt

On May 15, 2014, we closed on a senior unsecured revolving credit facility, or Revolver, and a senior unsecured term loan, or Term Loan (collectively referred to as the "Facility"). The Revolver provides borrowings on a revolving basis up to $900 million, bears interest at one-month LIBOR plus 1.05%, and will initially mature on May 30, 2018, subject to two, 6-month extensions available at our option subject to compliance with the terms of the Facility and payment of a customary extension fee. The Term Loan provides borrowings in an aggregate principal amount up to $500 million, bears interest at one-month LIBOR plus 1.15%, and will initially mature on May 30, 2016, subject to three, 12-month extensions available at our option subject to compliance with the terms of the Facility and payment of a customary extension fee.

In connection with the formation of WPG, and as contemplated in the Information Statement dated May 16, 2014 filed as Exhibit 99.1 to our current report on Form 8-K filed on May 20, 2014, we incurred $670.8 million of additional indebtedness under the Facility concurrent with the May 28, 2014 distribution or shortly thereafter. The proceeds of the borrowings under the Facility were used as follows: (i) $585.0 million was retained by SPG as part of the formation transactions, (ii) $30.7 million was used for the repayment of the Sunland Park Mall mortgage, (iii) $38.9 million was retained to cover transaction and related costs, (iv) $11.4 million was repaid to SPG for deferred loan financing costs and (v) the remaining $4.8 million was retained on hand for other corporate and working capital purposes. On June 17, 2014, we incurred an additional $170.0 million of indebtedness under the Facility, the proceeds of which were primarily used for the acquisition of our partner's interest in a portfolio of seven open-air shopping centers (see Note 4). During the fourth quarter of 2014, we incurred an additional $73.0 million of indebtedness under the Facility, the proceeds of which were primarily used for the repayment of the Village Park Plaza mortgage, the Plaza at Buckland Hills mortgage, the Lake View Plaza mortgage and the DeKalb Plaza mortgage (see above).

At December 31, 2014, our unsecured debt consisted of $413.8 million outstanding under the Revolver and $500.0 million outstanding under the Term Loan. On December 31, 2014, we had an aggregate available borrowing capacity of $483.4 million under the Facility, net of $2.8 million reserved for outstanding letters of credit.

Covenants

Our unsecured debt agreements contain financial and other covenants. If we were to fail to comply with these covenants, after the expiration of the applicable cure periods, the debt maturity could be accelerated or other remedies could be sought by the lender including adjustments to the applicable interest rate. As of December 31, 2014, management believes the Company is in compliance with all covenants of its unsecured debt.

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

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6. Indebtedness (Continued)

At December 31, 2014, certain of our consolidated subsidiaries were the borrowers under 29 non-recourse mortgage loans secured by mortgages encumbering 33 properties, including four separate pools of cross-defaulted and cross-collateralized mortgages encumbering a total of 10 properties. Under these cross-default provisions, a default under any mortgage included in the cross-defaulted pool may constitute a default under all mortgages within that pool and may lead to acceleration of the indebtedness due on each property within the pool. Certain of our secured debt instruments contain financial and other non-financial covenants which are specific to the properties which serve as collateral for that debt. Our existing non-recourse mortgage loans generally prohibit our subsidiaries that are borrowers thereunder from incurring additional indebtedness, subject to certain customary and limited exceptions. In addition, certain of these instruments limit the ability of the applicable borrower's parent entity from incurring mezzanine indebtedness unless certain conditions are satisfied, including compliance with maximum loan to value ratio and minimum debt service coverage ratio tests. If the borrower fails to comply with these covenants, the lender could accelerate the debt and enforce its right against their collateral. Further, under certain of these existing agreements, if certain cash flow levels in respect of the applicable mortgaged property (as described in the applicable agreement) are not maintained for at least two consecutive quarters, the lender could accelerate the debt and enforce its right against its collateral. At December 31, 2014, management believes the applicable borrowers under these non-recourse mortgage loans were in compliance with all covenants where non-compliance could individually, or giving effect to applicable cross-default provisions in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

Debt Maturity and Other

Scheduled principal repayments on indebtedness (excluding extension options) as of December 31, 2014 are as follows:

2015	$	187,579
2016		811,686
2017		116,948
2018		438,693
2019		63,741
Thereafter		726,619
Total principal maturities		2,345,266
Net unamortized debt premium		3,598
Total mortgages and unsecured indebtedness	$	2,348,864

Cash paid for interest for the years ended December 31, 2014, 2013 and 2012 was $81,607, $56,073 and $58,753, respectively.

Fair Value of Debt

The carrying values of our variable-rate unsecured loans approximate their fair values. We estimate the fair values of fixed-rate mortgages using cash flows discounted at current borrowing rates. The book

Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

6. Indebtedness (Continued)

value of our fixed-rate mortgages was $1.4 billion and $918.6 million as of December 31, 2014 and 2013, respectively. The fair values of these financial instruments and the related discount rate assumptions as of December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Fair value of fixed-rate mortgages	**$ 1,503,944**	$ 981,631
Weighted average discount rates assumed in calculation of fair value for fixed-rate mortgages	**3.36%**	3.06%

7. Rentals under Operating Leases

Future minimum rentals to be received under non-cancelable operating leases for each of the next five years and thereafter, excluding tenant reimbursements of operating expenses and percentage rent based on tenant sales volume, as of December 31, 2014 are as follows:

2015	$ 401,288
2016	341,966
2017	283,035
2018	230,531
2019	179,768
Thereafter	454,702
	$ 1,891,290

8. Equity

Prior to the May 28, 2014 separation, the financial statements were carved-out from SPG's books and records; thus, pre-separation ownership was solely that of SPG and noncontrolling interests based on their respective ownership interest in SPG L.P. on the date of separation (see Notes 1 and 2 for more information). Upon becoming a separate company on May 28, 2014, WPG's ownership is now classified under the typical stockholders' equity classifications of common stock, capital in excess of par value and retained earnings. Related to the separation, 155,162,597 shares of WPG common stock and 31,575,487 units of WPG L.P.'s limited partnership interest were issued to shareholders of SPG and unit holders of SPG L.P., respectively.

Exchange Rights

Limited partners in WPG L.P. have the right to exchange all or any portion of their units for shares of common stock on a one-for-one basis or cash, as determined by the Board of Directors. The amount of cash to be paid if the exchange right is exercised and the cash option is selected will be based on the trading price of our common stock at that time. At December 31, 2014, we had reserved 33,030,944 shares of common stock for possible issuance upon the exchange of units.

Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

8. Equity (Continued)

Stock Based Compensation

On May 28, 2014, the Company's Board of Directors adopted the Washington Prime Group, L.P. 2014 Stock Incentive Plan (the "Plan"), which permits the Company to grant awards to current and prospective directors, officers, employees and consultants of the Company or an affiliate. An aggregate of 10,000,000 shares of common stock has been reserved for issuance under the Plan. In addition, the maximum number of awards to be granted to a participant in any calendar year is 500,000 shares. Awards may be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units or other stock-based awards in WPG, or long term incentive plan ("LTIP") units or performance units in WPG, L.P. The Plan terminates on May 28, 2024.

Long Term Incentive Awards

Time Vested LTIP Awards

During 2014, the Company awarded 283,610 time-vested LTIP Units ("Inducement LTIP Units") to certain executive officers and employees of the Company under the Plan, pursuant to LTIP Unit Award Agreements between the Company and each of the grant recipients. The Inducement LTIP Units vest 25% on each of the first four anniversaries of the grant date, subject to each respective grant recipient's continued employment on each such vesting date. The grant date fair value of the Inducement LTIP Units of $5.5 million is being recognized as expense over the applicable vesting period. As of December 31, 2014, the estimated future compensation expense for Inducement LTIP Units was $4.9 million. The weighted average period over which the compensation expense will be recorded for the Inducement LTIP Units is approximately 3.5 years.

Performance Based Awards

During 2014, the Company awarded LTIP units subject to performance conditions described below ("Performance LTIP Units") to certain executive officers and employees of the Company in the maximum total amount of 452,327 units. The Performance LTIP Units are market based awards with a service condition. Recipients may earn between 0% - 100% of the award based on the Company's achievement of total shareholder return ("TSR") goals. The Performance LTIP Units relate to the following performance periods: from the beginning of the service period of May 28, 2014 (or August 25, 2014 for certain Performance LTIP Units) to (i) December 31, 2015 ("First Special PP"), (ii) December 31, 2016 ("Second Special PP"), and (iii) December 31, 2017 ("Third Special PP"). The number of Performance LTIP Units earned in respect of each performance period will be determined as a percentage of the maximum, based on the Company's achievement of absolute and relative (versus the MSCI REIT Index) TSR goals, with 40% of the Performance LTIP Units available to be earned with respect to each performance period based on achievement of absolute TSR goals, and 60% of the Performance LTIP Units available to be earned with respect to each performance period based on achievement of relative TSR goals. For 257,327 units, the maximum number of performance LTIP units that can be earned for each performance period is 40% for the First Special PP and 30% for each of the Second Special PP and the Third Special PP. For the remaining 195,000 units, the maximum number of Performance LTIP Units that can be earned for each individual performance period is one-third of the total.

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8. Equity (Continued)

The Performance LTIP awards that are earned, if any, will then be subject to a service-based vesting period. The vesting date would be May 28, 2017 for the First Special PP and Second Special PP. Awards earned under the Third Special PP would vest immediately upon the conclusion of the performance period and would require no subsequent service.

The fair value of the Performance LTIP Unit awards was estimated using a Monte Carlo simulation model and compensation is being recognized ratably from the beginning of the service period through the vesting date of May 28, 2017 for the First Special PP and Second Special PP. Compensation expense for the Third Special PP is being recognized ratably from the beginning of the service period through the end of the performance period, or December 31, 2017. The weighted average per share value of performance shares awarded, the total amount of compensation to recognized over the performance period, and the assumptions used to value the grants is provided below:

	2014
Fair value per share of Performance LTIP Units	$ 9.27
Total amount to be recognized over the performance period	$ 4,182
Risk free rate	1.11%
Volatility	28.88%
Dividend yield	5.20%
Correlation of the Returns	77.01%

As of December 31, 2014, the estimated future compensation expense for Performance LTIP Units was $3.3 million. The weighted average period over which the compensation expense will be recorded for the Performance LTIP Units is approximately 2.5 years.

Other Award

Additionally, one executive officer will receive an annual grant of LTIP units for each fiscal year while employed by the Company (the "Annual LTIP Units"). The number of Annual LTIP Units granted in respect of a fiscal year will be determined based on the Company's achievement of TSR goals with respect to such fiscal year by dividing a cash amount, not greater than $0.6 million for 2014 and an amount equal to the executive officer's annual base salary for 2015 and subsequent fiscal years, by the average closing price of our common stock for the final 15 trading days of such fiscal year. Annual LTIP Units vest at a rate of one-third on each of the first three anniversaries of the first day of the fiscal year following the fiscal year in respect of which such Annual LTIP Units were granted. No award was earned in 2014.

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

8. Equity (Continued)

A summary of Inducement LTIP Units and Performance LTIP Units activity under the terms of the Plan for the year ended December 31, 2014 is as follows:

	Number of Inducement LTIP Units	Weighted Average Grant Date Fair Value	Number of Performance LTIP Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013		$		$
Granted	283,610	19.39	452,327	9.27
Vested				
Forfeited				
Outstanding at December 31, 2014	283,610	$	452,327	$ 9.27

We recorded compensation expense related to all long term incentive awards of approximately $1.8 million for the year ended December 31, 2014, which expense is included in general and administrative expense in the accompanying consolidated and combined statements of operations.

Board of Directors Compensation

On August 4, 2014, the Board of Directors approved annual compensation for the period of May 28, 2014 through May 28, 2015 for the independent members of the Board of Directors of the Company. Each independent director's annual compensation shall total $0.2 million based on a combination of cash and restricted stock units granted under the Plan. During 2014, the four independent directors were each granted restricted stock units for 6,380 shares with an aggregate grant date fair value of $0.5 million, which is being recognized as expense over the vesting period ending on May 28, 2015.

Dividends

On September 15, 2014, the Company paid a quarterly cash dividend of $0.25 per common share/unit. On August 4, 2014, the Company's Board of Directors had declared the dividend to shareholders and unitholders of record on August 27, 2014, with an ex-dividend date of August 25, 2014.

On December 15, 2014, the Company paid a quarterly cash dividend of $0.25 per common share/unit. On November 4, 2014, the Company's Board of Directors had declared the dividend to shareholders and unitholders of record on November 26, 2014, with an ex-dividend date of November 25, 2014.

On January 22, 2015, the Company paid a cash dividend of $0.14 per common share/unit for the period from November 26, 2014 through January 14, 2015. On December 24, 2014, the Company's Board of Directors had declared the dividend, which was contingent on the closing of the Merger, to shareholders and unitholders of record on January 14, 2015, with an ex-dividend date of January 21, 2015. The dividend represents the first quarter 2015 regular quarterly dividend prorated for the dividend period prior to the Merger.

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

9. Commitments and Contingencies

Litigation

We are involved from time-to-time in various legal proceedings that arise in the ordinary course of our business, including, but not limited to commercial disputes, environmental matters, and litigation in connection with transactions including acquisitions and divestitures. We believe that such litigation, claims and administrative proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

Two shareholder lawsuits challenging the Merger-related transactions have been filed in Maryland state court, respectively captioned *Zucker v. Glimcher Realty Trust* et al., 24-C-14-005675 (Circ. Ct. Baltimore City), filed on October 2, 2014, and *Motsch v. Glimcher Realty Trust* et al., 24-C-14-006011 (Circ. Ct. Baltimore City), filed on October 23, 2014. The actions were consolidated, and on November 12, 2014 plaintiffs filed a consolidated shareholder class action and derivative complaint, captioned *In re Glimcher Realty Trust Shareholder Litigation* , 24-C-14-005675 (Circ. Ct. Baltimore City) (the "Consolidated Action"). The Consolidated Action names as defendants the trustees of Glimcher, and alleges these defendants breached fiduciary duties. Specifically, plaintiffs in the Consolidated Action allege that the trustees of Glimcher agreed to sell Glimcher for inadequate consideration and agreed to improper deal protection provisions that precluded other bidders from making successful offers. Plaintiffs further allege that the sales process was flawed and conflicted in several respects, including the allegation that the trustees failed to canvas the market for potential buyers, failed to secure a "go-shop" provision in the merger agreement allowing Glimcher to seek alternative bids after signing the merger agreement, and were improperly influenced by WPG's early suggestion that the surviving entity would remain headquartered in Ohio and would retain a significant portion of Glimcher management, including the retention of Michael Glimcher as CEO of the surviving entity and positions for Michael Glimcher and another trustee of Glimcher on the board of the surviving entity. Plaintiffs in the Consolidated Action additionally allege that the Preliminary Registration Statement filed with the SEC on October 28, 2014, failed to disclose material information concerning, among other things, (i) the process leading up to the consummation of the Merger Agreement; (ii) the financial analyses performed by Glimcher's financial advisors; and (iii) certain financial projections prepared by Glimcher and WPG management allegedly relied on by Glimchers' financial advisors. The Consolidated Action also names as defendants Glimcher, WPG and certain of their affiliates, and alleges that these defendants aided and abetted the purported breaches of fiduciary duty. The plaintiffs seek, among other things, an order enjoining or rescinding the transaction, damages, and an award of attorney's fees and costs.

On December 22, 2014, the defendants, including the Company, of the Consolidated Action, by and through counsel, entered into a memorandum of understanding (the "MOU") with the plaintiffs of the Consolidated Action providing for the settlement of the Consolidated Action. Under the terms of the MOU, and to avoid the burden and expense of further litigation, the Company and Glimcher have agreed to make certain supplemental disclosures related to the proposed Mergers, all of which are set forth in a Current Report on Form 8-K filed by Glimcher with the Securities and Exchange Commission (the "SEC") on December 23, 2014. The MOU contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval following notice to the Company's common shareholders. In the event that the parties enter into a

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

9. Commitments and Contingencies (Continued)

stipulation of settlement, a hearing will be scheduled at which the Circuit Court for Baltimore City will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is approved by the court, it will resolve and release all claims by shareholders of the Company challenging any aspect of the Merger, the Merger agreement, and any disclosure made in connection therewith, including in the Definitive Proxy Statement/Prospectus on Schedule 14A filed with the SEC by the Company on December 2, 2014. Additionally, in connection with the settlement, the parties contemplate that plaintiffs' counsel will file a petition in the Circuit Court for Baltimore City for an award of attorneys' fees and expenses to be paid by the Company. The settlement, including the payment by the Company of any such attorneys' fees, is also contingent upon, among other things, the Merger becoming effective under Maryland law. There can be no assurance that the Circuit Court for Baltimore City will approve the settlement contemplated by the MOU. In the event that the settlement is not approved and such conditions are not satisfied, the defendants will continue to vigorously defend against the allegations in the Consolidated Action.

Lease Commitments

As of December 31, 2014, a total of six properties are subject to ground leases. The termination dates of these ground leases range from 2016 to 2076. These ground leases generally require us to make fixed annual rental payments, or a fixed annual rental plus a percentage rent component based upon the revenues or total sales of the property. Some of these leases also include escalation clauses and renewal options. We incurred ground lease expense, which is included in ground rent and other costs in the accompanying consolidated and combined statements of operations, for the years ended December 31, 2014, 2013 and 2012 of $2,905, $2,892 and $2,903, respectively.

Future minimum lease payments due under these ground leases for each of the next five years and thereafter, excluding applicable extension options, as of December 31, 2014 are as follows:

2015	$	2,205
2016		2,550
2017		2,526
2018		2,504
2019		2,504
Thereafter		89,794
	$	102,083

Concentration of Credit Risk

Our properties rely heavily upon anchor or major tenants to attract customers; however, these retailers do not constitute a material portion of our financial results. Additionally, many anchor retailers in the mall properties own their spaces further reducing their contribution to our operating results. All operations are within the United States and no customer or tenant accounts for 5% or more of our consolidated and combined revenues.

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

10. Related Party Transactions

As described in Notes 1 and 2, the accompanying consolidated and combined financial statements include the operations of SPG Businesses as carved-out from the financial statements of SPG for the periods prior to the separation and the operations of the properties under the Company's ownership subsequent to the separation. Transactions between the properties have been eliminated in the consolidated and combined presentation.

For periods prior to the separation, a fee for certain centralized SPG costs for activities such as common costs for management and other services, national advertising and promotion programs, consulting, accounting, legal, marketing and management information systems has been charged to the properties in the combined financial statements. In addition, certain commercial general liability and property damage insurance is provided to the properties by an indirect subsidiary of SPG. In connection with the separation, WPG and SPG entered into property management agreements under which SPG manages WPG's mall properties. Additionally, WPG and SPG entered into a transition services agreement pursuant to which SPG provides to WPG, on an interim, transitional basis after the separation date, various services including administrative support for the strip centers, information technology, accounts payable and other financial functions, as well as engineering support, quality assurance support and other administrative services. Under the transition services agreement, SPG charges WPG, based upon SPG's allocation of certain shared costs such as insurance premiums, advertising and promotional programs, leasing and development fees. Amounts charged to expense for property management and common costs, services, and other as well as insurance premiums are included in property operating costs in the consolidated and combined statements of operations. Additionally, leasing and development fees charged by SPG are capitalized by the property.

Charges for properties which are consolidated and combined for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Property management and common costs, services and other	**$ 20,685**	$ 17,251	$ 16,905
Insurance premiums	**9,150**	9,094	9,351
Advertising and promotional programs	**1,030**	887	1,303
Capitalized leasing and development fees	**9,827**	11,976	12,283

Charges for unconsolidated properties for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Property management costs, services and other	**$ 2,193**	$ 4,171	$ 4,762
Insurance premiums	**139**	233	247
Advertising and promotional programs	**50**	65	80
Capitalized leasing and development fees	**207**	310	802

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

10. Related Party Transactions (Continued)

At December 31, 2014 and 2013, $4,715 and $4,959, respectively, were payable to SPG and its affiliates and are included in accounts payable, accrued expenses, intangibles, and deferred revenues in the accompanying consolidated and combined balance sheets.

11. Earnings Per Share

We determine basic earnings per share based on the weighted average number of shares of common stock outstanding during the period and we consider any participating securities for purposes of applying the two-class method. We determine diluted earnings per share based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding assuming all potentially dilutive securities were converted into common shares at the earliest date possible. As described in Note 1, the common shares and units outstanding at the separation date are reflected as outstanding for all periods prior to the separation. The following table sets forth the computation of our basic and diluted earnings per share:

	For the Year Ended December 31,		
	2014	**2013**	**2012**
Earnings Per Share, Basic:			
Net income attributable to common stockholders	**$ 170,029**	$ 155,481	$ 129,731
Weighted average shares outstanding basic	**155,162,597**	155,162,597	155,162,597
Earnings per common share, basic	**$ 1.10**	$ 1.00	$ 0.84
Earnings Per Share, Diluted:			
Net income attributable to common stockholders basic	**$ 170,029**	$ 155,481	$ 129,731
Net income attributable to common unit holders	**35,426**	31,640	26,400
Net income attributable to common stockholders diluted	**$ 205,455**	$ 187,121	$ 156,131
Weighted average shares outstanding basic	**155,162,597**	155,162,597	155,162,597
Operating partnership units	**32,328,347**	31,575,487	31,575,487
Weighted average shares outstanding diluted	**187,490,944**	186,738,084	186,738,084
Earnings per common share, diluted	**$ 1.10**	$ 1.00	$ 0.84

For the years ended December 31, 2014, 2013 and 2012, potentially dilutive securities include units that are exchangeable for common stock and LTIP units granted under the Plan that are convertible into

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

11. Earnings Per Share (Continued)

units and exchangeable for common stock. No securities had a material dilutive effect for the years ended December 31, 2014, 2013 and 2012. We accrue dividends when they are declared.

12. Subsequent Events

On February 25, 2015, the Company entered into a definitive agreement providing for a joint venture with a third party with respect to the ownership and operation of five of the Company's malls, which are valued at approximately $1.625 billion. Under the terms of the agreement, the Company will retain a 51% interest and sell 49% to the third party partner for net proceeds of approximately $430 million, which will be used to repay a portion of the Bridge Loan. The Company will retain management and leasing responsibilities of the properties. Subject to the satisfaction or waiver of certain closing conditions, the transaction is anticipated to close in the second quarter of 2015.

On February 24, 2015, the Company's Board of Directors declared the following cash dividends:

Security Type	Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
Common Shares/Units(1)	$ 0.1100	March 31, 2015	March 6, 2015	March 16, 2015
Series G Preferred Shares	$ 0.5078	March 31, 2015	March 31, 2015	April 15, 2015
Series H Preferred Shares	$ 0.4688	March 31, 2015	March 31, 2015	April 15, 2015
Series I Preferred Shares	$ 0.4297	March 31, 2015	March 31, 2015	April 15, 2015
Series I-1 Preferred Units	$ 0.4563	March 31, 2015	March 31, 2015	April 15, 2015

(1) Represents a prorated dividend for the period from January 15, 2015 through March 31, 2015, which is in addition to $0.14 stub dividend paid on January 22, 2015 (see Note 8).

See Note 1 for a discussion of the Company's Merger with Glimcher Realty Trust on January 15, 2015.

On January 13, 2015, we acquired Canyon View Marketplace, a shopping center located in Grand Junction, Colorado, for $10.0 million including the assumption of an existing mortgage of $5.5 million. The source of funding for the acquisition was cash on hand.

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Washington Prime Group Inc.

Notes to Consolidated and Combined Financial Statements (Continued)

(Dollars in thousands, except share, unit and per share amounts and where indicated as in millions or billions)

13. Quarterly Financial Data (Unaudited)

Quarterly 2014 and 2013 data is summarized in the table below. Quarterly amounts may not sum to annual amounts due to rounding.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
Total revenue	**$ $157,969**	**$ 158,175**	**$ 167,684**	**$ 177,298**
Operating income	**$ 54,907**	**$ 15,354**	**$ 53,106**	**$ 53,794**
Net income	**$ 41,502**	**$ 84,281**	**$ 38,821**	**$ 40,851**
Net income attributable to common stockholders	**$ 34,392**	**$ 69,801**	**$ 32,201**	**$ 33,635**
Net income per share basic and diluted	**$ 0.22**	**$ 0.45**	**$ 0.21**	**$ 0.22**
2013				
Total revenue	$ 154,235	$ 151,570	$ 155,379	$ 165,105
Operating income	$ 55,205	$ 54,951	$ 52,087	$ 64,777
Net income	$ 55,853	$ 41,396	$ 38,581	$ 51,504
Net income attributable to common stockholders	$ 46,229	$ 34,251	$ 32,234	$ 42,767
Net income per share basic and diluted	$ 0.30	$ 0.22	$ 0.21	$ 0.28

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SCHEDULE III

Washington Prime Group Inc.
Real Estate and Accumulated Depreciation
December 31, 2014
(Dollars in thousands)

			Initial Cost		Cost Capitalized Subsequent to Construction or Acquisition		Gross Amounts At Which Carried At Close of Period				
Name	**Location**	**Encumbrances(3)**	**Land**	**Buildings and Improvements**	**Land**	**Buildings and Improvements**	**Land**	**Buildings and Improvements**	**Total(1)**	**Accumulated Depreciation(2)**	**Date of Construction or Acquisition**
Malls											
Anderson Mall	Anderson, SC	$ 19,933	$ 1,712	$ 15,227	$ 851	$ 21,037	$ 2,563	$ 36,264	$ 38,827	$ 19,628	1972
Bowie Town Center	Bowie (Washington, D.C.), MD		2,479	60,322	235	11,094	2,714	71,416	74,130	31,413	2001
Boynton Beach Mall	Boynton Beach (Miami), FL		22,240	78,804	4,666	29,370	26,906	108,174	135,080	57,282	1985
Brunswick Square	East Brunswick (New York), NJ	76,084	8,436	55,838		31,697	8,436	87,535	95,971	47,148	1973
Charlottesville Fashion Square	Charlottesville, VA	49,434		54,738		18,641		73,379	73,379	35,049	1997
Chautauqua Mall	Lakewood, NY		3,116	9,641		16,900	3,116	26,541	29,657	14,980	1971
Chesapeake Square	Chesapeake (Virginia Beach), VA	64,014	11,534	70,461		19,825	11,534	90,286	101,820	56,248	1989
Cottonwood Mall	Albuquerque, NM	103,998	10,122	69,958		9,153	10,122	79,111	89,233	44,621	1996
Edison Mall	Fort Myers, FL		11,529	107,350		31,795	11,529	139,145	150,674	66,005	1997
Forest Mall	Fond Du Lac, WI		721	4,491		8,810	721	13,301	14,022	9,588	1973
Great Lakes Mall	Mentor (Cleveland), OH		12,302	100,362		37,235	12,302	137,597	149,899	62,133	1961
Gulf View Square	Port Richey (Tampa), FL		13,690	39,991	1,688	21,173	15,378	61,164	76,542	33,540	1980
Irving Mall	Irving (Dallas), TX		6,737	17,479	2,533	43,860	9,270	61,339	70,609	38,970	1971
Jefferson Valley Mall	Yorktown Heights (New York), NY		4,868	30,304		30,143	4,868	60,447	65,315	39,344	1983
Knoxville Center	Knoxville, TN		5,006	21,617	3,712	32,347	8,718	53,964	62,682	36,391	1984
Lima Mall	Lima, OH		7,659	35,338		13,758	7,659	49,096	56,755	26,808	1965
Lincolnwood Town Center	Lincolnwood (Chicago), IL	52,366	7,834	63,480		7,804	7,834	71,284	79,118	47,866	1990
Lindale Mall	Cedar Rapids, IA		14,106	58,286		8,686	14,106	66,972	81,078	9,678	1998
Longview Mall	Longview, TX		259	3,567	124	9,882	383	13,449	13,832	7,900	1978
Maplewood Mall	St. Paul (Minneapolis), MN		17,119	80,758		25,211	17,119	105,969	123,088	40,503	2002
Markland Mall	Kokomo, IN			7,568		17,629		25,197	25,197	14,344	1968
Melbourne Square	Melbourne, FL		15,762	55,891	4,160	37,251	19,922	93,142	113,064	41,898	1982
Mesa Mall	Grand Junction, CO	87,250	12,784	80,639		1,932	12,784	82,571	95,355	13,042	1998
Muncie Mall	Muncie, IN	36,552	172	5,776	52	28,584	224	34,360	34,584	21,411	1970
Northlake Mall	Atlanta, GA		33,322	98,035		4,003	33,322	102,038	135,360	78,712	1998
Northwoods Mall	Peoria, IL		1,185	12,779	2,164	38,986	3,349	51,765	55,114	33,974	1983
Oak Court Mall	Memphis, TN	39,614	15,673	57,304		10,652	15,673	67,956	83,629	41,855	1997
Orange Park Mall	Orange Park (Jacksonville), FL		12,998	65,121		43,314	12,998	108,435	121,433	58,823	1994
Paddock Mall	Ocala, FL		11,198	39,727		20,996	11,198	60,723	71,921	27,649	1980
Port Charlotte Town Center	Port Charlotte, FL	45,593	5,471	58,570		16,110	5,471	74,680	80,151	42,773	1989
Richmond Town Square	Richmond Heights (Cleveland), OH		2,600	12,112		56,113	2,600	68,225	70,825	54,339	1966
River Oaks Center	Calumet City (Chicago), IL		30,560	101,224		11,738	30,560	112,962	143,522	58,456	1997

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SCHEDULE III

Washington Prime Group Inc.
Real Estate and Accumulated Depreciation
December 31, 2014
(Dollars in thousands)

			Initial Cost		Cost Capitalized Subsequent to Construction or Acquisition		Gross Amounts At Which Carried At Close of Period				
Name	**Location**	**Encumbrances(3)**	**Land**	**Buildings and Improvements**	**Land**	**Buildings and Improvements**	**Land**	**Buildings and Improvements**	**Total(1)**	**Accumulated Depreciation(2)**	**Date of Construction or Acquisition**
Rolling Oaks Mall	San Antonio, TX		1,929	38,609		13,612	1,929	52,221	54,150	33,154	1988
Rushmore Mall	Rapid City, SD	94,000	18,839	67,364	528	1,829	19,367	69,193	88,560	12,840	1998
Southern Hills Mall	Sioux City, IA	101,500	15,025	75,984		871	15,025	76,855	91,880	12,247	1998
Southern Park Mall	Youngstown, OH		16,982	77,767	97	30,552	17,079	108,319	125,398	55,934	1970
Sunland Park Mall	El Paso, TX		2,896	28,900		10,025	2,896	38,925	41,821	27,354	1988
Town Center at Aurora	Aurora (Denver), CO	55,000	9,959	56,832	6	56,314	9,965	113,146	123,111	63,038	1998
Towne West Square	Wichita, KS	48,573	972	21,203	61	12,940	1,033	34,143	35,176	23,678	1980
Valle Vista Mall	Harlingen, TX	40,000	1,398	17,159	329	21,381	1,727	38,540	40,267	25,727	1983
Virginia Center Commons	Glen Allen, VA		9,764	50,547		26,622	9,764	77,169	86,933	42,111	1991
West Ridge Mall	Topeka, KS	42,740	5,453	34,148	1,168	25,710	6,621	59,858	66,479	35,298	1988
Westminster Mall	Westminster (Los Angeles), CA	84,060	43,464	84,709		36,534	43,464	121,243	164,707	55,535	1998
Whitehall Mall	Whitehall, PA	10,198	8,500	28,512		664	8,500	29,176	37,676	140	2014
Strip Centers											
Arboretum	Austin, TX		7,640	36,774	71	12,640	7,711	49,414	57,125	23,056	1987
Bloomingdale Court	Bloomingdale (Chicago), IL	24,732	8,422	26,184		14,718	8,422	40,902	49,324	23,835	1987
Bowie Town Center Strip	Bowie (Washington, D.C.), MD		231	4,597		606	231	5,203	5,434	2,001	1987
Charles Towne Square	Charleston, SC			1,768	370	10,687	370	12,455	12,825	10,364	1976
Chesapeake Center	Chesapeake (Virginia Beach), VA		4,410	11,241		676	4,410	11,917	16,327	8,123	1989
Clay Terrace	Carmel, IN	115,000	39,030	115,207		1,368	39,030	116,575	155,605	2,428	2014
Concord Mills Marketplace	Concord (Charlotte), NC	16,000	8,036	21,167			8,036	21,167	29,203	2,350	2007
Countryside Plaza	Countryside (Chicago), IL		332	8,507	2,554	10,999	2,886	19,506	22,392	11,012	1977
Dare Centre	Kill Devil Hills, NC			5,702		1,868		7,570	7,570	2,557	2004
DeKalb Plaza	King of Prussia (Philadelphia), PA		1,955	3,405		844	1,955	4,249	6,204	2,275	2003
Empire East	Sioux Falls, SD		3,350	10,552		2,617	3,350	13,169	16,519	1,500	1998
Fairfax Court	Fairfax, VA		8,078	34,997		216	8,078	35,213	43,291	747	2014
Fairfield Town Center	Fairfield Town Center		5,354	4,435		1,170	5,354	5,605	10,959		
Forest Plaza	Rockford, IL	17,366	4,132	16,818	453	13,776	4,585	30,594	35,179	16,063	1985
Gateway Centers	Austin, TX		24,549	81,437		12,652	24,549	94,089	118,638	36,924	2004
Gaitway Plaza	Ocala, FL	13,900	5,445	26,687		(147)	5,445	26,540	31,985	734	2014
Greenwood Plus	Greenwood (Indianapolis), IN		1,129	1,792		4,655	1,129	6,447	7,576	3,900	1979
Henderson Square	King of Prussia (Philadelphia), PA	12,954	4,223	15,124		838	4,223	15,962	20,185	5,373	2003
Keystone Shoppes	Indianapolis, IN			4,232	2,118	3,381	2,118	7,613	9,731	2,792	1997

Lake Plaza	Waukegan (Chicago), IL	2,487	6,420	1,455	2,487	7,875	10,362	4,778	1986
Lake View Plaza	Orland Park (Chicago), IL	4,702	17,543	14,835	4,702	32,378	37,080	18,675	1986

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SCHEDULE III

Washington Prime Group Inc.
Real Estate and Accumulated Depreciation
December 31, 2014
(Dollars in thousands)

			Initial Cost		Cost Capitalized Subsequent to Construction or Acquisition		Gross Amounts At Which Carried At Close of Period				
Name	**Location**	**Encumbrances(3)**	**Land**	**Buildings and Improvements**	**Land**	**Buildings and Improvements**	**Land**	**Buildings and Improvements**	**Total(1)**	**Accumulated Depreciation(2)**	**Date of Construction or Acquisition**
Lakeline Plaza	Cedar Park (Austin), TX	16,269	5,822	30,875		9,484	5,822	40,359	46,181	20,027	1998
Lima Center	Lima, OH		1,781	5,151		9,535	1,781	14,686	16,467	7,615	1978
Lincoln Crossing	O'Fallon (St. Louis), IL		674	2,192		1,077	674	3,269	3,943	1,746	1990
MacGregor Village	Cary, NC		502	8,891		512	502	9,403	9,905	2,832	2004
Mall of Georgia Crossing	Buford (Atlanta), GA	24,102	9,506	32,892		1,999	9,506	34,891	44,397	17,201	2004
Markland Plaza	Kokomo, IN		206	738		7,508	206	8,246	8,452	4,228	1974
Martinsville Plaza	Martinsville, VA			584		461		1,045	1,045	874	1967
Matteson Plaza	Matteson (Chicago), IL		1,771	9,737		3,627	1,771	13,364	15,135	8,494	1988
Muncie Towne Plaza	Muncie, IN	6,764	267	10,509	87	2,874	354	13,383	13,737	6,567	1998
North Ridge Shopping Center	Raleigh, NC	12,500	385	12,826		3,925	385	16,751	17,136	4,316	2004
Northwood Plaza	Fort Wayne, IN		148	1,414		3,092	148	4,506	4,654	2,491	1974
Palms Crossing	McAllen, TX	36,620	13,496	45,925		10,854	13,496	56,779	70,275	18,234	2006
Richardson Square	Richardson (Dallas), TX		6,285		990	15,046	7,275	15,046	22,321	3,733	1977
Rockaway Commons	Rockaway (New York), NJ		5,149	26,435		9,491	5,149	35,926	41,075	13,410	1998
Rockaway Town Plaza	Rockaway (New York), NJ			18,698	2,227	4,318	2,227	23,016	25,243	6,891	2004
Royal Eagle Plaza	Miami, FL		2,153	24,216		1,069	2,153	25,285	27,438	694	2014
Shops at Arbor Walk, The	Austin, TX	41,388		42,546		5,987		48,533	48,533	14,684	2005
Shops at North East Mall, The	Hurst (Dallas), TX		12,541	28,177	402	5,988	12,943	34,165	47,108	20,230	1999
St. Charles Towne Plaza	Waldorf (Washington, D.C.), MD		8,216	18,993		5,392	8,216	24,385	32,601	14,089	1987
The Plaza at Buckland Hills	Manchester, CT		17,355	43,900		761	17,355	44,661	62,016	811	2014
Tippecanoe Plaza	Lafayette, IN			745	234	5,499	234	6,244	6,478	3,930	1974
University Center	Mishawaka, IN		2,119	8,365		3,855	2,119	12,220	14,339	9,527	1980
University Town Plaza	Pensacola, FL		6,009	26,945		2,647	6,009	29,592	35,601	3,436	2013
Village Park Plaza	Carmel, IN		19,565	51,873		31	19,565	51,904	71,469	1,600	2014

Washington Plaza	Indianapolis, IN		263	1,833		2,747	263	4,580	4,843	3,804	1976
Waterford Lakes Town Center	Orlando, FL		8,679	72,836		18,300	8,679	91,136	99,815	49,677	1999
Westland Park Plaza	Jacksonville, FL		5,576	8,775		(144)	5,576	8,631	14,207	252	2014
West Ridge Plaza	Topeka, KS	10,685	1,376	4,560		4,328	1,376	8,888	10,264	4,523	1988
West Town Corners	Orlando, FL	18,800	6,821	24,603		49	6,821	24,652	31,473	675	2014
White Oaks Plaza	Springfield, IL	13,527	3,169	14,267		6,907	3,169	21,174	24,343	10,343	1986
Wolf Ranch	Georgetown (Austin), TX		21,999	51,547		11,888	21,999	63,435	85,434	22,213	2004
		$ 1,431,516	**$ 733,713**	**$ 3,240,129**	**$ 31,880**	**$ 1,221,744**	**$ 765,593**	**$ 4,461,873**	**$ 5,227,466**	**$ 2,058,061**	

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Washington Prime Group Inc.

Notes to Schedule III as of December 31, 2014

(Dollars in thousands)

(1) Reconciliation of Real Estate Properties:

The changes in real estate assets (which excludes furniture, fixtures and equipment) for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Balance, beginning of year	**$ 4,724,930**	$ 4,660,914	$ 4,596,784
Acquisitions	**471,293**		29,978
Improvements	**80,059**	84,731	86,922
Disposals*	**(48,816)**	(20,715)	(52,770)
Balance, end of year	**$ 5,227,466**	$ 4,724,930	$ 4,600,914

* Primarily represents properties that have been sold and fully depreciated assets which have been disposed.

The unaudited aggregate cost of real estate assets for federal income tax purposes as of December 31, 2014 was $4,613,128.

(2) Reconciliation of Accumulated Depreciation:

The changes in accumulated depreciation and amortization for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Balance, beginning of year	**$ 1,920,476**	$ 1,781,073	$ 1,664,253
Depreciation expense	**172,337**	159,791	161,578
Disposals	**(34,752)**	(20,388)	(44,758)
Balance, end of year	**$ 2,058,061**	$ 1,920,476	$ 1,781,073

Depreciation of our investment in buildings and improvements reflected in the combined statements of operations is calculated over the estimated original lives of the assets as noted below.

Buildings and Improvements	typically 10-35 years for the structure, 15 years for landscaping and parking lot, and 10 years for HVAC equipment.
Tenant Allowances and Improvements	shorter of lease term or useful life.

(3)
Encumbrances represent face amount of mortgage debt and exclude any premiums or discounts.