SECURITIES & EXCHANGE COMMISSION EDGAR FILING

CICERO INC

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from_____to_____

Commission File Number: 000-26392

CICERO INC.
(Exact name of registrant as specified in its charter)

Delaware	**11-2920559**
(State of incorporation)	*(I.R.S. Employer Identification No.)*

8000 Regency Parkway, Suite 542, Cary, NC 27518
(Address of principal executive offices, including Zip Code)

(919) 380-5000
(*Registrant's telephone number, including area code)*

_____

Securities registered pursuant to Section 12(b) of the Act:	**NONE**
Securities registered pursuant to Section 12(g) of the Act:	**Common Stock, $.001 par value**

_____

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the above Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a shell company. Yes [ ] No [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [_] Accelerated filer [_] Non - accelerated filer [_] Smaller reporting company [X]

Aggregate market value of the outstanding shares of common stock held by non-affiliates of the Registrant as of June 30, 2016 was approximately $4,806,325 based upon the closing price quoted on the Over The Counter Bulletin Board.

There were 192,253,005 shares of common stock outstanding as of March 22, 2017.

Documents Incorporated by Reference: None

CICERO INC.

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2016

PART I

Item 1. Business

Overview

Cicero, Inc. (the “Company”) provides desktop activity intelligence and automation software that helps organizations isolate issues and automates employee tasks in the contact center and back office. The Company provides an innovative and unique combination of application and process integration, automation, and desktop analytics capabilities, all without changing the underlying applications or requiring costly application development. The Company’s software collects desktop activity and application performance data and tracks business objects across time and multiple users, as well as measures against defined expected business process flows, for either analysis or to feed a third-party application. In addition to software solutions, the Company also provides technical support, training and consulting services as part of its commitment to providing customers with industry-leading solutions. The Company’s consulting team has in-depth experience in developing successful enterprise-class solutions as well as valuable insight into the business information needs of customers in the largest Fortune 500 corporations worldwide.

The Company focuses on the activity intelligence and customer experience management market with emphasis on desktop analytics and automation with its Cicero Discovery™, Cicero Insight™ and Cicero Automation™ products.

Cicero Discovery collects desktop activity leveraging a suite of sensors. Cicero Discovery is a lightweight and configurable tool to collect activity and application performance data and track business objects across time and across multiple users as well as measure against a defined "expected" business process flow, either for analysis or to feed a third-party application.

Cicero Insight is a measurement and analytics solution that collects and presents high value information about quality, productivity, compliance, and revenue from frontline activity to target areas for improvement. Powered by Cicero Discovery sensors, Cicero Insight collects activity data about the applications, when and how they are used and makes it readily available for analysis and action to the business community.

Cicero Automation delivers all the features of the Cicero Discovery product as well as desktop automation for enterprise contact center and back office employees. Leveraging existing IT investments Cicero Automation integrates applications, automates workflow, and provides control and adaptability at the end user desktop.

Cicero Automation also provide Single Sign-On (SSO) and stay signed on capability. The software maintains a secure credential store that facilitates single sign-on. Passwords can be reset but are non-retrievable. Stored interactions can be selectively encrypted based on the needs of the enterprise. All network communications are compressed and encrypted for transmission.

The Company provides an intuitive configuration toolkit for each product, which simplifies the process of deploying and managing the solutions in the enterprise. The Company provides a unique way of capturing untapped desktop activity data using sensors, combining it with other data sources, and making it readily available for analysis and action to the business community. The Company also provides a unique approach that allows companies to organize functionality of their existing applications to better align them with tasks and operational processes. In addition, the Company’s software solutions can streamline end-user tasks and enable automatic information sharing among line-of-business siloed applications and tools. It is ideal for deployment in organizations that need to provide access to enterprise applications on desktops to iteratively improve business performance, the user experience, and customer satisfaction. By leveraging desktop activity data, integrating disparate applications, automating business processes and delivering a better user experience, the Company’s products are ideal for the financial services, insurance, healthcare, governmental and other industries requiring a cost-effective, proven business performance and user experience management solution for enterprise desktops.

Some of the companies that have implemented or are implementing the Company’s software solutions include Merrill Lynch, & Co., Inc., Nationwide Financial Services, First Tennessee Bank, Assurant, JP Morgan Chase, Convergys, and UBS. We have also sold our products to healthcare, banking, and government users.

Cicero Inc. was incorporated in New York in 1988 as Level 8 Systems, Inc. and re-incorporated in Delaware in 1999. Our principal executive offices are located at 8000 Regency Parkway, Suite 542, Cary, NC 27518 and our telephone number is (919) 380-5000. Our web site is www.ciceroinc.com.

Products

The Company's software products deliver desktop activity intelligence and improvement capabilities to improve business performance. All of our products - Cicero Discovery, Cicero Insight, and Cicero Automation - leverage existing technologies by securely collecting desktop activity data and automating redundant, manual processes, improving business processes and the user experience.

Cicero Discovery™

Cicero Discovery collects activity and application performance data and tracks business objects across time and across multiple users, as well as measures against a defined "expected" business process flow, either for analysis or to feed a third-party application. Cicero Discovery is invisible to the end user – it gathers data about what they do, what applications they run, how those applications are used, the health of their computer and the type of data they are working on that the company is interested in. These data are collected and stored centrally and can be tracked in real-time or via deferred processing.

Cicero Insight™

Cicero Insight is a measurement and analytics solution that collects and presents high value information about quality, productivity, compliance, and revenue from frontline activity to target areas for improvement. Using a set of configurable sensors at the employees' desktop Cicero Insight collects activity data about the applications, when and how they are used and makes it readily available for analysis and action to the business community. Cicero Insight:

- Provides a source of rich data from the desktop, which is not readily obtainable or commonly utilized in business level analysis.
- Is a solution to analyze data and identify areas of improvement with actionable intelligence (data-driven decisions).
- Helps companies establish a desktop knowledge baseline.
- Delivers role-based dashboards, reporting and analytics in a web and mobile context.
- Supports data harmonization with the integration and correlation of data from other data platforms.

Companies are using Cicero Insight to:

- See how the events at the desktop impact business goals, the employee and customer experience.
- Measure and assessing activity (what activity, by whom, where, how much and when).
- Identify compliance issues (installed software and versions, approved/unapproved apps, web usage and domain access, copying files, external drive access, etc.).
- Identify top performers, best practices, etc.
- Have current hardware configuration and state of utilization data.
- Establish a knowledge baseline for the employee desktop.
- Measure and assess performance (hardware and user).
- Measure and assess process/task efficiency (look at the frequency of use of an application vs total time spent in an application).
- Identify improvement opportunities through automation, training, process changes, and fraud/regulatory and compliance changes.

Cicero Automation™

Cicero Automation enables businesses to transform human interaction across the enterprise. It enables the flow of data between different applications, regardless of the type and source of the application, eliminating redundant entry and costly mistakes. Cicero Automation automates up and down-stream process flows, enforcing compliance and optimizing handle and transaction time, reducing training time and enabling delivery of best in class service. Cicero Automation also captures real-time information about each process at the desktop, allowing organizations to spot trends and forecast problems before they occur.

Cicero Automation software offers a proven, innovative departure from traditional, costly and labor-intensive enterprise application integration and automation solutions. The Company provides non-invasive application integration, reducing enterprise integration implementation cost and time. Cicero Automation also enables customers to transform applications, business processes and human expertise into a cost effective business solution that improves operational efficiency.

By using Cicero Automation technology, companies can decrease their customer management costs, improve the customer experience, maximize the lifetime value of existing customers, and more efficiently cross-sell the full range of their products and services resulting in an overall increase in return on their information technology investments. In addition, the Company's software enables organizations to reduce the business risks inherent in replacement or re-engineering of mission-critical applications and extend the productive life and functional reach of their application portfolio.

Services

We provide a full spectrum of technical support, training and consulting services across all of our products as part of our commitment to providing our customers industry-leading business integration solutions. Our services organization is staffed with experts in the field of systems integration having backgrounds in development, consulting, and business process reengineering. In addition, our services professionals have substantial industry specific backgrounds with extraordinary depth in our focus marketplaces of financial services, contact centers, and the back office.

Maintenance and Support

We offer customers varying levels of technical support tailored to their needs, including periodic software upgrades, and telephone support. The Company's products are frequently used in mission-critical business situations, and our maintenance and support services are accustomed to the critical demands that must be met to deliver world-class service to our clients. Many of the members of our staff have expertise in mission critical environments and are ready to deliver service commensurate with those unique client needs.

Training Services

Our training organization offers a full curriculum of courses and labs designed to help customers become proficient in the use of our products and related technology as well as enabling customers to take full advantage of our field-tested best practices and methodologies. Our training organization seeks to enable client organizations to gain the proficiency needed in our products for full client self-sufficiency but retains the flexibility to tailor their curriculum to meet specific needs of our clients.

Consulting Services

We offer consulting services around our product offerings in project management, applications and platform integration, application design and development and application renewal, along with expertise in a wide variety of development environments and programming languages. We also have an active partner program in which we recruit leading IT consulting and system integration firms to provide services for the design, implementation and deployment of our solutions. Our consulting organization supports third-party consultants by providing architectural and enabling services.

Customers

Our customers include both end-users to whom we sell our products and services directly and distributors and other intermediaries who either resell our products to end-users or incorporate our products into their own product offerings. Typical end-users of our products and services are large businesses with sophisticated technology requirements for contact centers, in the financial services, insurance and telecommunications industries, and intelligence, security, law enforcement and other governmental organizations.

Our customers are using our solutions to rapidly deploy applications. Some examples of customers' uses of our products include:

- *A Regional Bank* - A large U.S. regional bank selected Cicero software to provide intelligent unified desktop solutions for their customer service operations and throughout their enterprise. Leveraging existing applications, the new solution captures desktop activities, automates processes, provides user guidance, and displays composite views of information to improve user productivity and the customer experience.

- *Business Process Outsourcers* - use our software solution in contact centers to provide real time integration among existing back-office systems, eliminate redundant data entry, shorten call times, provide real-time data access and enhance customer service and service levels.

- *A financial institution* - uses our software solution to provide real-time integration among market data, customer account information, existing back-office systems and other legacy applications, eliminate redundant data entry, provide real-time data access and processing, and enhance customer service and service levels.

- *An insurance company* – Information technology and Cicero professionals created a Cicero desktop solution which integrated computer telephony integration, key business systems and numerous secondary applications in use in the contact centers and elsewhere within the organization. Using Cicero, the contact center agents now use a central, integrated dashboard to navigate between applications, with key information (like customer and policy numbers) passed automatically between applications.

Merrill Lynch/Bank of America and UBS, Inc. each accounted for more than ten percent (10%) of our operating revenues in fiscal 2016 and fiscal 2015.

Sales and Marketing

Sales

An important element of our sales strategy is to supplement our direct sales force by expanding our relationships with third parties to increase market awareness and acceptance of our business integration software solutions. As part of these relationships, we continue to jointly sell and implement our software solutions with strategic partners such as systems integrators and embed our software along with other products through reseller relationships. We provide training and other support necessary to systems integrators and resellers to aid in the promotion of our products. To date we have entered into technology partnerships for integrated business solutions with Teleopti, Avaya/KnoahSoft, Nexidia, and Co-nexus. In addition, we have entered into strategic partnerships with Aspect, eg solutions and Convergys. These organizations have relationships with existing customers or have access to organizations requiring top secret or classified access. In addition, several of these partners can bundle our software with other software to provide a comprehensive solution to customers. We are not materially dependent on any of these organizations. Generally, our agreements with such partners provide for price discounts based on their sales volume, with no minimum required volume.

Marketing

The target market for our products and services are in the financial services, insurance, and healthcare industries, as well as users in the intelligence and security communities and other governmental organizations. Increasing competitiveness and consolidation is driving companies in such businesses to increase the efficiency, improve the user experience and improve the quality of their customer contact centers. As a result, companies are compelled by both economic necessity and internal mandates to find ways to increase internal efficiency, increase customer satisfaction, increase effective cross-selling, decrease staff turnover cost and leverage their investment in current information technology.

Our marketing staff has an in-depth understanding of business performance and user experience software marketplaces and the needs of these customers, as well as experience in all of the key marketing disciplines. They also have knowledge across industries in financial services, insurance, healthcare, and government organizations that have focused on application integration and business process automation solutions to address needs in mergers and acquisitions and homeland security.

Core marketing functions include product marketing, digital marketing and public relations. We utilize focused marketing programs that are intended to attract potential customers in our target vertical industries and to promote our Company and our brands. Our marketing programs are specifically directed at our target markets, and include speaking engagements, public relations campaigns, focused trade shows and web site marketing, while devoting substantial resources to supporting the field sales team with high quality sales tools and ancillary material. As product acceptance grows and our target markets increase, we will shift to broader marketing programs.

The marketing department also produces ancillary material for presentation or distribution to prospects, including demonstrations, presentation materials, white papers, case studies, articles, brochures, and data sheets.

Research and Product Development

We incurred research and development expense of approximately $1,163,000 and $1,445,000 in 2016 and 2015, respectively.

Since Cicero Discovery, Cicero Insight, and Cicero Automation are new products in a relatively untapped market, it is imperative to constantly enhance the features and functionality of these products. Our budget for research and development is based on planned product introductions and enhancements. Actual expenditures, however, may significantly differ from budgeted expenditures. Inherent in the product development process are a number of risks. The development of new, technologically advanced software products is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends.

Competition

The markets in which we compete are highly competitive and subject to rapid change. These markets are highly fragmented and served by numerous firms. We believe that the competitive factors affecting the markets for our products and services include:

- Product functionality and features;
- Availability and quality of support services;
- Ease of product implementation;
- Price;
- Product reputation; and
- Our financial stability.

The relative importance of each of these factors depends upon the specific customer environment. Although we believe that our products and services can compete favorably, we may not be able to increase our competitive position against current and potential competitors. In addition, many companies choose to deploy their own information technology personnel or utilize system developers to write new code or rewrite existing applications in an effort to deploy solutions to desktops. As a result, prospective customers may decide against purchasing and implementing externally developed and produced solutions such as ours.

We compete with companies that utilize varying approaches to modernize, web-enable and integrate existing software applications:

- Middleware software provides integration of applications through messages and data exchange implemented typically in the middle tier of the application architecture. This approach requires modification of the application source code and substantial infrastructure investments and operational expense. Reuters, TIBCO and IBM MQSeries are competitors in the middleware market.
- CRM software offers application tools that allow developers to build product specific interfaces and custom applications. This approach is not designed to be product neutral and is often dependent on deep integration with our technology. Siebel and Salesforce.com are representative products in the CRM software category.
- Recently, there have been several companies that offer capabilities similar to our software in that these companies advertise that they can capture desktop activity and integrate applications without modifying the underlying code for those applications. OpenSpan is one company who advertises that they can capture desktop activity and provide integration at the point of contact or on the desktop.

Our product competes directly with other back office and contact center solutions offered by OpenSpan, Jacada, Verint, and NICE. We expect additional competition from other established and emerging companies. Furthermore, our competitors may combine with each other, or other companies may enter our markets by acquiring or entering into strategic relationships with our competitors. Many of our current competitors have greater name recognition, a larger installed customer base and greater financial, technical, marketing and other resources than we have.

Intellectual Property

Our success is dependent upon developing, protecting and maintaining our intellectual property assets. We rely upon combinations of copyright, trademark and trade secrecy protections, along with contractual provisions, to protect our intellectual property rights in software, documentation, data models, methodologies, data processing systems and related written materials in the international marketplace. We have completed applications for patents on our United Data Model. Copyright protection is generally available under United States laws and international treaties for our software and printed materials. The effectiveness of these various types of protection can be limited, however, by variations in laws and enforcement procedures from country to country. We use the registered trademarks “Cicero®”, “United Data Model®”, and “United Desktop®”.

All other product and company names mentioned herein are for identification purposes only and are the property of, and may be trademarks of, their respective owners.

Employees

As of December 31, 2016, we employed 16 full-time employees. Our employees are not represented by a union or a collective bargaining agreement.

Available Information

Our web address is www.ciceroinc.com. We make available free of charge through our web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Also, the public may read and copy such material at the Securities and Exchange Commission’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains an internet site that contains reports, proxy and information statements, and other information at www.sec.gov.

Forward Looking and Cautionary Statements

Certain statements contained in this Annual Report may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). We may also make forward looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to shareholders, in press releases and in other public statements. In addition, our representatives may from time to time make oral forward looking statements. Forward looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects," and similar expressions, may identify such forward looking statements. In accordance with the Reform Act, set forth below are cautionary statements that accompany those forward looking statements. Readers should carefully review these cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward looking statements and from historical trends. The following cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in our filings with the Securities and Exchange Commission and in materials incorporated therein by reference: our future success depends on the market acceptance of our products and successful execution of the strategic direction; general economic or business conditions may be less favorable than expected, resulting in, among other things, lower than expected revenues; an unexpected revenue shortfall may adversely affect our business because our expenses are largely fixed; our quarterly operating results may vary significantly because we are not able to accurately predict the amount and timing of individual sales and this may adversely impact our stock price; trends in sales of our products and general economic conditions may affect investors' expectations regarding our financial performance and may adversely affect our stock price; we may lose market share and be required to reduce prices as a result of competition from our existing competitors, other vendors and information systems departments of customers; we may not have the ability to recruit, train and retain qualified personnel; rapid technological change could render the Company's products obsolete; loss of any one of our major customers could adversely affect our business; our products may contain undetected software errors, which could adversely affect our business; because our technology is complex, we may be exposed to liability claims; we may be unable to enforce or defend our ownership and use of proprietary technology; because we are a technology company, our common stock may be subject to erratic price fluctuations; and we may not have sufficient liquidity and capital resources to meet changing business conditions.

Item 1A. Risk Factors

We have a history of losses and there are no assurances that such losses may not continue.

We experienced operating losses and net losses for each of the years from 2002 through 2016. We incurred a net loss of $2.8 million for 2015 and $3.9 million for 2016. As of December 31, 2016, we had a working capital deficit of $11.1 million. Our ability to generate positive cash flow is dependent upon sustaining certain cost reductions and generating sufficient revenues. If we are unable to generate positive cash flow, our results of operations and financial condition may be adversely affected.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern.

The report of our independent auditors dated March 31, 2017 on our consolidated financial statements for the period ended December 31, 2016 included an emphasis of matter paragraph indicating that there is substantial doubt about our ability to continue as a going concern. Our auditors' doubts are based on our recurring losses from operations and working capital deficit. Our ability to continue as a going concern will be determined by our ability to secure customer contracts that will drive sufficient cash flow to sustain our operations and/or raise additional capital in the form of debt or equity financing. Our consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

Our inability to obtain sufficient capital either through internally generated cash or through the use of equity or debt offerings could impair the growth of our business.

Historically, we have relied on equity and debt offerings, borrowings and operating cash flows to finance our working capital requirements. Reliance on internally generated cash to finance our operations could substantially limit our operational and financial flexibility. We have experienced negative cash flows from operations for a number of years, including the past three years. To the extent that we have insufficient operating cash flows, our ability to finance our operations may be limited by the extent to which we are able to raise capital through debt or equity financings. The extent to which we will be able to use shares of capital stock will depend on the market value of our capital stock from time to time and the willingness of potential investors to invest in our company. Using shares of capital stock for this purpose also may result in significant dilution to our then existing stockholders. Raising external capital in the form of debt could require periodic interest payments that could hinder our financial flexibility in the future. Besides, our ability to obtain external financing is subject to a number of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- the state of global credit markets; and
- general market conditions for financing activities by companies in our industry.

Our failure to obtain a sufficient amount of capital on acceptable terms to finance our operations may materially and adversely affect the growth of our business.

We depend on an acceptance of our products for ongoing revenue.

The Company's future revenues are entirely dependent on acceptance of Cicero's products. The Company has experienced negative cash flows from operations for a number of years, including the past three years. At December 31, 2016, the Company had a working capital deficiency of $11.1 million. In order to generate sufficient revenues to sustain its operations, the Company will need to attract more accounts in the near future.

Economic conditions could adversely affect our revenue growth and cause us not to achieve desired revenue.

Our ability to generate revenue depends on the overall demand for customer experience management software and services. Our business depends on overall economic conditions, the economic and business conditions in our target markets and the spending environment for information technology projects, and specifically for customer experience management in those markets. A weakening of the economy in one or more of our geographic regions, unanticipated major events and economic uncertainties may make the spending environment more challenging for our software and services, reduce capital spending on information technology projects by our customers and prospective customers, result in longer sales cycles for our software and services and/or cause customers or prospective customers to be more cautious in undertaking larger transactions. Those situations may cause a decrease in our revenue. A decrease in demand for our software and services caused, in part, by a weakening of the economy, may result in a decrease in our revenue rates.

Because we cannot accurately predict the amount and timing of individual sales, our quarterly operating results may vary significantly, which could adversely impact our stock price.

Our quarterly operating results have varied significantly in the past, and we expect they will continue to do so in the future. We have derived, and expect to continue to derive in the near term, a significant portion of our revenue from relatively large customer contracts or arrangements. The timing of revenue recognition from those contracts and arrangements has caused and may continue to cause fluctuations in our operating results, particularly on a quarterly basis. Our quarterly revenues and operating results typically depend upon the volume and timing of customer contracts received during a given quarter and the percentage of each contract, which we are able to recognize as revenue during the quarter. Each of these factors is difficult to forecast. As is common in the software industry, the largest portion of software license revenues are typically recognized in the last month of each fiscal quarter and the third and fourth quarters of each fiscal year. We believe these patterns are partly attributable to budgeting and purchasing cycles of our customers and our sales commission policies, which compensate sales personnel for meeting or exceeding periodic quotas.

Furthermore, licensing fees for Cicero Automation are significant and each sale can or will account for a large percentage of our revenue and a single sale may have a significant impact on the results of a quarter. In addition, the substantial commitment of executive time and financial resources that have historically been required in connection with a customer's decision to purchase our software increases the risk of quarter-to-quarter fluctuations. Our software sales require a significant commitment of time and financial resources because it is an enterprise product. Typically, the purchase of our products involves a significant technical evaluation by the customer and the delays frequently associated with customers' internal procedures to approve large capital expenditures and to test, implement and accept new technologies that affect key operations. This evaluation process frequently results in a lengthy sales process of several months. It also subjects the sales cycle for our products to a number of significant risks, including our customers' budgetary constraints and internal acceptance reviews. The length of our sales cycle may vary substantially from customer to customer.

Our product revenue may fluctuate from quarter to quarter due to the completion or commencement of significant assignments, the number of working days in a quarter and the utilization rate of services personnel. As a result of these factors, we believe that a period-to-period comparison of our historical results of operations is not necessarily meaningful and should not be relied upon as indications of future performance. In particular, our revenues in the third and fourth quarters of our fiscal years may not be indicative of the revenues for the first and second quarters. Moreover, if our quarterly results do not meet the expectations of our securities analysts and investors, the trading price of our common stock would likely decline.

Loss of key personnel associated with Cicero® development could adversely affect our business.

Loss of key executive personnel or the software engineers we have hired with specialized knowledge of our technology could have a significant impact on our execution of our new strategy given that they have specialized knowledge developed over a long period of time with respect to our technology.

Different competitive approaches or internally developed solutions to the same business problem could delay or prevent adoption of Cicero Discovery, Cicero Insight, and Cicero Automation.

Cicero products are designed to provide a unique way for an enterprise to understand what is truly happening on their users' desktops. To effectively penetrate the market for solutions to this problem, Cicero products will compete with traditional quality assurance and desktop analytic solutions that attempt to solve this business problem. Quality assurance and desktop analytics solutions are currently sold and marketed by companies such as OpenSpan and Verint. There can be no assurance that our potential customers will determine that Cicero methodology is superior to solutions provided by the competitors described above in addressing this business problem. Moreover, the information systems departments of our target customers, large financial institutions, are large and may elect to attempt to internally develop an internal solution to this business problem rather than to purchase a Cicero product.

Cicero Automation is designed to address in a novel way the problems that large companies face integrating the functionality of different software applications by integrating these applications at the desktop. To effectively penetrate the market for solutions to this disparate application problem, Cicero Automation will compete with traditional Enterprise Application Integration, or EAI, solutions that attempt to solve this business problem at the server or back-office level. Server level EAI solutions are currently sold and marketed by companies such as NEON, Mercator, Vitria, and BEA. There can be no assurance that our potential customers will determine that Cicero Automation's desktop integration methodology is superior to traditional middleware EAI solutions provided by the competitors described above in addressing this business problem. Moreover, the information systems departments of our target customers, large financial institutions, are large and may elect to attempt to internally develop an internal solution to this business problem rather than to purchase the Cicero Automation product.

Accordingly, we may not be able to provide products and services that compare favorably with the products and services of our competitors or the internally developed solutions of our customers. These competitive pressures could delay or prevent adoption of Cicero Discovery, Cicero Insight or Cicero Automation or require us to reduce the price of our products, either of which could have a material adverse effect on our business, operating results and financial condition.

Our ability to compete may be subject to factors outside our control.

We believe that our ability to compete depends in part on a number of competitive factors outside our control, including the ability of our competitors to hire, retain and motivate senior project managers, the ownership of competitors of software used by potential clients, the development by others of software that is competitive with our products and services, the price at which others offer comparable services and the extent of our competitors' responsiveness to customer needs.

The markets for our products are characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and short product life cycles.

Our future success will depend to a substantial degree upon our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and emerging and evolving industry standards.

The introduction of new or enhanced products also requires us to manage the transition from older products in order to minimize disruption in customer ordering patterns, as well as ensure that adequate supplies of new products can be delivered to meet customer demand. There can be no assurance that we will successfully develop, introduce or manage the transition to new products.

We have in the past, and may in the future, experience delays in the introduction of our products, due to factors internal and external to our business. Any future delays in the introduction or shipment of new or enhanced products, the inability of such products to gain market acceptance or problems associated with new product transitions could adversely affect our results of operations, particularly on a quarterly basis.

In order to fully implement our business plan, we will be required to stay current with common technology enhancements and the needs of the modern contact center, back and branch office. To that end we will be required to extend our support for browser-based applications to support Microsoft Edge on Windows 10 and for Windows-based application support to include UAP (formerly Metro). Further, operational changes in the contact center industry, such as chat and social-media agents, require that we extend support for concurrent use of applications, enabling agents to work simultaneously with more than one customer.

The reputation of our software may be damaged and we may face a loss of revenue if our software products fail to perform as intended or contain significant defects.

Our software products are complex, and significant defects may be found following introduction of new software or enhancements to existing software or in product implementations in varied information technology environments. Internal quality assurance testing and customer testing may reveal product performance issues or desirable feature enhancements that could lead us to reallocate product development resources or postpone the release of new versions of our software. The reallocation of resources or any postponement could cause delays in the development and release of future enhancements to our currently available software, require significant additional professional services work to address operational issues, damage the reputation of our software in the marketplace and result in potential loss of revenue. Although we attempt to resolve all errors that we believe would be considered serious by our partners and customers, our software is not error-free. Undetected errors or performance problems may be discovered in the future, and known errors that we consider minor may be considered serious by our partners and customers. This could result in lost revenue, delays in customer deployment or legal claims and would be detrimental to our reputation. If our software experiences performance problems or ceases to demonstrate technology leadership, we may have to increase our product development costs and divert our product development resources to address the problems.

We may be unable to enforce or defend our ownership and use of proprietary and licensed technology.

Our success depends to a significant degree upon our proprietary and licensed technology. We rely on a combination of patent, trademark, trade secret and copyright law, contractual restrictions and passwords to protect our proprietary technology. However, these measures provide only limited protection, and there is no guarantee that our protection of our proprietary rights will be adequate. Furthermore, the laws of some jurisdictions outside the United States do not protect proprietary rights as fully as in the United States. In addition, our competitors may independently develop similar technology; duplicate our products or design around our patents or our other intellectual property rights. We may not be able to detect or police the unauthorized use of our products or technology, and litigation may be required in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of our proprietary rights. Any litigation to enforce our intellectual property rights would be expensive and time-consuming, would divert management resources and may not be adequate to protect our business.

We do not believe any of our products infringe the proprietary rights of third parties. However, companies in the software industry have experienced substantial litigation regarding intellectual property and third parties could assert claims that we have infringed their intellectual property rights. In addition, we may be required to indemnify our distribution partners and end-users for similar claims made against them. Any claims against us would divert management resources, and could require us to spend significant time and money in litigation, pay damages, develop new intellectual property or acquire licenses to intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available on acceptable terms. As a result, intellectual property claims against us could have a material adverse effect on our business, operating results and financial condition.

As the number of software products in the industry increases and the functionality of these products further overlaps, we believe that software developers and licensors may become increasingly subject to infringement claims. Any such claims, with or without merit, could be time consuming and expensive to defend and could adversely affect our business, operating results and financial condition.

Our business may be adversely impacted if we do not provide professional services to implement our solutions.

Customers that license our software typically engage our professional services staff or third-party consultants to assist with product implementation, training and other professional consulting services. We believe that many of our software sales depend, in part, on our ability to provide our customers with these services and to attract and educate third-party consultants to provide similar services. New professional services personnel and service providers require training and education and take time and significant resources to reach full productivity. Competition for qualified personnel and service providers is intense within our industry. Our business may be harmed if we are unable to provide professional services to our customers to effectively implement our solutions or if we are unable to establish and maintain relationships with third-party implementation providers.

Our business may be adversely impacted by cyber security breach.

Third parties may attempt to fraudulently induce employees or customers to disclose sensitive information such as user names, passwords, or other information in order to gain access to our data, which could result in significant legal and financial exposure and a loss of confidence in the security of our service that would harm our future business prospects. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers.

Because our software could interfere with the operations of customers, we may be subject to potential product liability and warranty claims by these customers.

Our software enables customers' software applications to integrate and is often used for mission critical functions or applications. Errors, defects or other performance problems in our software or failure to provide technical support could result in financial or other damages to our customers. Customers could seek damages for losses from us. In addition, the failure of our software and solutions to perform to customers' expectations could give rise to warranty claims. The integration of our software with our customer's applications increase the risk that a customer may bring a lawsuit against us. Even if our software is not at fault, a product liability claim brought against us, even if not successful, could be time consuming and costly to defend and could harm our reputation.

The so-called "penny stock rule" could make it cumbersome for brokers and dealers to trade in our common stock, making the market for our common stock less liquid which could cause the price of our stock to decline.

The Company's common stock is quoted on the Over-the-Counter Bulletin Board. Trading of our common stock on the OTCBB may be subject to certain provisions of the Securities Exchange Act of 1934, as amended, commonly referred to as the "penny stock" rule. A penny stock is generally defined to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. Our stock is currently a penny stock and therefore is subject to additional sales practice requirements on broker-dealers. These may require a broker-dealer to:

- make a special suitability determination for purchasers of our shares;
- receive the purchaser's written consent to the transaction prior to the purchase; and
- deliver to a prospective purchaser of our stock, prior to the first transaction, a risk disclosure document relating to the penny stock market.

Consequently, penny stock rules may restrict the ability of broker-dealers to trade and/or maintain a market in our common stock. Also, prospective investors may not want to get involved with the additional administrative requirements, which may have a material adverse effect on the trading of our shares.

We have not paid any dividends on our common stock and it is likely that no dividends will be paid in the future.

We have never declared or paid cash dividends on our common stock and we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Provisions of our charter and Bylaws could deter takeover attempts.

Our certificate of incorporation authorizes the issuance, without stockholder approval, of preferred stock, with such designations, rights and preferences as the Board of Directors may determine from time to time. Such designations, rights and preferences established by the Board may adversely affect our stockholders. In the event of issuance, the preferred stock could be used, under certain circumstances, as a means of discouraging, delaying or preventing a change of control of the Company. Although we have no present intention to issue any shares of preferred stock in addition to the currently outstanding preferred stock, we may issue preferred stock in the future.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our corporate headquarters and administrative functions are based in offices of approximately 3,080 square feet in our Cary, North Carolina office pursuant to a lease which expires in 2018. We believe that our present facilities are suitable for continuing our existing and planned operations.

Item 3. Legal Proceedings

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market For Registrant's Common Stock, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Our common stock is currently quoted on the Over-The-Counter Bulletin Board. In January 2007, we formally changed our name to Cicero Inc. and now trade under the ticker CICN. The chart below sets forth the high and low stock prices for the quarters of the fiscal years ended December 31, 2016 and 2015.

	2016		2015	
Quarter	High	Low	High	Low
First	$ 0.04	$ 0.02	$ 0.05	$ 0.02
Second	$ 0.03	$ 0.03	$ 0.06	$ 0.04
Third	$ 0.03	$ 0.01	$ 0.06	$ 0.03
Fourth	$ 0.01	$ 0.01	$ 0.04	$ 0.02

The closing price of the common stock on March 23, 2017 was $0.01 per share.

Dividends and Record Stockholders

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. As of March 23, 2017, we had 221 registered stockholders of record.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2016, about shares of Common Stock outstanding and available for issuance under the Company's existing equity compensation plans: the 2007 Cicero Stock Option Plan and the Outside Director Stock Option Plan.

Plan Category	Number of Securities tobe issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available underequity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by stockholders	2,832,212	$ 0.24	1,667,788
Equity compensation plans not approved by stockholders	-0-	--	-0-

Item 6. Selected Financial Data.

Not applicable

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General Information

Cicero Inc. provides businesses the ability to maximize every interaction from intra-company back office applications to those that take place between employees, customers and vendors while extending the value of the best of breed applications in which businesses have already invested. The Company provides an innovative and unique combination of application and process integration, automation, presentation and real-time analysis, all without changes to the underlying applications or requiring costly development expenditures. Business integration software addresses the emerging need for a company's information systems to deliver enterprise-wide views of the Company's business information processes.

In addition to software products, the Company also provides technical support, training and consulting services as part of its commitment to providing its customers industry-leading integration solutions. The Company's consulting team has in-depth experience in developing successful enterprise-class solutions as well as valuable insight into the business information needs of customers in the Global 5000. Cicero offers services around our integration and customer experience management software products.

This discussion contains forward looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities, liquidity and capital resources and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause its actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. See "Item 1. Business—Forward Looking and Cautionary Statements."

Business Strategy

Management makes operating decisions and assesses performance of the Company's operations based on one reportable segment, the Software product segment.

The Software product segment is comprised of the Cicero Discovery, Cicero Insight and Cicero Automation products. Cicero Discovery delivers desktop analytics and reporting for the enterprise. Cicero Discovery collects activity and application performance data and tracks business objects across time and across multiple users as well as measures against a defined "expected" business process flow, either for analysis or to feed a third-party application. Cicero Insight is a measurement and analytics solution that collects and presents high value information about quality, productivity, compliance, and revenue from frontline activity to target areas for improvement. Using a set of configurable sensors at the employees' desktop Cicero Insight collects activity data about the applications, when and how they are used and makes it readily available for analysis and action to the business community. Cicero Automation enables businesses to transform human interaction across the enterprise. Cicero Automation enables the flow of data between different applications, regardless of the type and source of the application, eliminating redundant entry and costly mistakes. Cicero Automation automates up and down-stream process flows, enforcing compliance and optimizing handle time, reducing training time and enabling delivery of best in class service. Cicero Automation captures real-time information about business processes at the desktop, allowing organizations to spot trends and forecast problems before they occur.

Results of Operations

The following table sets forth, for the years indicated, the Company's results of operations expressed as a percentage of revenue and presents information for the three categories of revenue.

	Years Ended December 31,	
	2016	2015
Revenue:		
Software	6.6%	20.1%
Maintenance	70.7%	76.1%
Services	22.6%	3.8%
Total	100.0%	100.0%
Cost of revenue:		
Software	0.0%	0.0%
Maintenance	12.7%	5.6%
Services	33.8%	29.8%
Total	46.5%	35.3%
Gross margin	53.5%	64.6%
Operating expenses:		
Sales and marketing	41.2%	55.6%
Research and product development	93.0%	74.4%
General and administrative	70.2%	59.2%
Goodwill impairment charge	132.5%	--%
Total	336.9%	189.2%
Loss from operations	(283.4)%	(124.5)%
Other income/(expense), net	(29.0)%	(21.7)%
Net loss	(312.4)%	(146.3)%

The following table sets forth data for total revenue for operations by geographic origin as a percentage of total revenue for the periods indicated:

	2016	2015
United States	96%	92%
Europe	4%	8%
	100%	100%

Years Ended December 31, 2016 and 2015

Revenue and Gross Margin. The Company has three categories of revenue: software products, maintenance, and services. Software products revenue is comprised primarily of fees from licensing the Company's proprietary software products. Maintenance revenue is comprised of fees for maintaining, supporting, and providing periodic upgrades to the Company's software products. Services revenue is comprised of fees for consulting and training services related to the Company's software products.

The Company's revenues vary from quarter to quarter, due to market conditions, the budgeting and purchasing cycles of customers and the effectiveness of the Company’s sales force. The Company does not have any material backlog of unfilled software orders and product revenue in any period and is substantially dependent upon orders received in that quarter. Because the Company's operating expenses are based on anticipated revenue levels and are relatively fixed over the short term, variations in the timing of the recognition of revenue can cause significant variations in operating results from period to period. Fluctuations in operating results may result in volatility of the price of the Company's common stock.

Total revenues for the year ended December 31, 2016 decreased 35.6% or $692,000 from $1,943,000 in 2015 to $1,251,000 in 2016. The decrease in revenues in 2016 is due primarily to the decrease in software sales and maintenance revenue partially offset by an increase in consulting revenue.

Software Products. Software products revenue for the year ended December 31, 2016 decreased 78.8% or $308,000 from $391,000 in 2015 to $83,000 in 2016. The decrease is primarily due to a slower sales cycle in the acceptance of the Cicero Discovery in the marketplace as well as delays in getting the Cicero Insight product to market. Further, the Company has added OEM partners whose integration of the Cicero products into their solutions has taken more time than anticipated.

The gross margin on software products was 100.0% for the years ended December 31, 2016 and 2015, respectively.

The Company expects to see an increase in software sales coupled with improving margins on software products as Cicero Discovery, Cicero Insight and Cicero Automation gain acceptance in the marketplace. The Company's expectations are based on its modification of the sales approach with customers and prospects as well as a focus on adding more reseller and OEM partners. The Company believes that the entry level product for an enterprise is Discovery which allows companies to measure and then manage. Using data and analytics to drive change in an organization begins with capturing that data. We believe that this approach is being embraced by the company's prospects. In addition, the Company and its products continue to be recognized in the marketplace with technology and partnership awards.

Maintenance. Maintenance revenues for the year ended December 31, 2016 decreased 40.2% or $594,000 from $1,479,000 in 2015 to $885,000 in 2016. The decrease in maintenance revenue in 2016 is primarily due to the cancellation of a maintenance contract in fiscal 2016.

Cost of maintenance is comprised of personnel costs and related overhead for the maintenance and support of the Company's software products. The Company experienced a gross margin on maintenance products of 82.0% and 92.7% for 2016 and 2015, respectively.

Maintenance revenues are expected to increase as a result of our expected increase in sales of the Cicero Discovery, Cicero Insight and Cicero Automation products. The cost of maintenance as a percentage should decrease slightly.

Services. Services revenue for the year ended December 31, 2016 increased 287.7% or $210,000 from $73,000 in 2015 to $283,000 in 2016. The increase in services revenues in 2016 is primarily attributable to an increase in paid consulting engagements with existing customers.

Cost of services primarily includes personnel and travel costs related to the delivery of services. Services gross margin loss was (49.5%) and (693.2%) for fiscal 2016 and 2015, respectively. The decrease in gross margin loss in 2016 was primarily attributable to the increase in consulting revenue partially offset by a decrease in consulting expenses from a decrease in headcount.

Services revenues are expected to increase as the Cicero Discovery, Cicero Insight, and Cicero Automation products gain acceptance.

Sales and Marketing. Sales and marketing expenses primarily include personnel costs for salespeople, marketing personnel, travel and related overhead, as well as industry conference participation and promotional expenses. Sales and marketing expenses decreased 52.3% or $565,000 to $515,000 in 2016. The decrease is primarily attributable to lower headcount and lower commissions partially offset by higher outside professional services.

Sales and marketing expenses are expected to increase as the Company adds variable compensation based on sales.

Research and Development. Research and development expenses primarily include personnel costs for product authors, product developers and product documentation and related overhead. Research and development expense decreased 19.5% or $282,000 to $1,163,000 in 2016. The decrease in costs is primarily due to lower headcount and a decrease in outside professional services.

The Company intends to continue to make a significant investment in research and development while enhancing efficiencies in this area.

General and Administrative. General and administrative expenses consist of personnel costs for the executive, legal, financial, human resources, investor relations and administrative staff, related overhead, and all non-allocable corporate costs of operating the Company. General and administrative expenses decreased 23.7% or $273,000 to $878,000 in 2016. The decrease is primarily attributable to a decrease in legal and professional services expenses related to the $1,000,000 equity financing in the third quarter of fiscal 2015.

General and administrative expenses are not expected to increase in 2017.

Goodwill impairment charge. In 2016, we recorded a non-cash goodwill impairment charge of $1,658,000. There was no goodwill impairment identified as of December 31, 2015. We test goodwill for impairment annually on December 31 using a discounted cash flow methodology. Our goodwill impairment test as of December 31, 2016, indicated that the carrying value of our SOA acquisition goodwill exceeded its estimated fair value. Accordingly, we recorded a non-cash, non-tax deductible goodwill impairment charge of $1,658,000 in fiscal year 2016, reducing our goodwill from $1,658,000 to zero.

Provision for Taxes. The Company's effective income tax rate for continuing operations differs from the statutory rate primarily because an income tax benefit was not recorded for the net loss incurred in 2016 and 2015. Because of the Company's inconsistent earnings history, the deferred tax assets have been fully offset by a valuation allowance.

Other Income/(Loss). Other loss (net) decreased $88,000 from other loss of $1,000 in 2015 to other income of $87,000 in 2016. The increase is primarily due to income from the write off of old liabilities of approximately $87,000.

Interest expense increased $28,000 from $422,000 in 2015 to $450,000 in 2016 due to additional borrowings with John L. (Launny) Steffens, the Chairman of the Board of Directors.

Net Loss. Net loss increased $1,065,000 from a net loss of $2,843,000 in 2015 to a net loss of $3,908,000 in fiscal 2016. The increase in net loss is primarily due to lower revenue and the recording of impairment of goodwill of $1,658,000 in fiscal 2016 partially offset by lower operating costs from a decrease in headcount and the non-recurring operating costs associated with the $1 million equity financing in fiscal 2015.

Impact of Inflation. Inflation has not had a significant effect on the Company's operating results during the periods presented.

Liquidity and Capital Resources

Operating and Investing Activities

The Company's cash was $91,000 on December 31, 2016 compared with $1,009,000 on December 31, 2015, a decrease of $918,000. The Company incurred a net loss of $3,908,000 for the year ended December 31, 2016 compared to net loss of $2,843,000 for the previous fiscal year. The Company has experienced negative cash flows from operations for fiscal 2016 and 2015. At December 31, 2016, the Company had a working capital deficiency of $11,142,000.

Operating activities utilized $1,949,000 in cash, which was primarily comprised of the loss from operations of $3,908,000, a gain on the write of old liabilities of $87,000, an increase in accounts receivable of $22,000 and a decrease in trade payables and other accruals of $224,000. This was offset by non-cash charges for depreciation of $5,000 and stock-based compensation expense of $3,000, impairment of goodwill of $1,658,000, amortization of debt discount of $268,000, a decrease in prepaid expenses of $201,000 and an increase in deferred revenue of $157,000.

The Company utilized approximately $3,000 in cash updating the Company's network and computer equipment.

Financing Activities

The Company funded its cash needs during the year ended December 31, 2016 with cash on hand from December 31, 2015, the revenue generated in fiscal 2016, and through the use of proceeds from other short-term borrowings in the amount of $1,038,000, net of repayments.

From time to time during 2012 through 2016, the Company entered into several short term notes payable with John L. (Launny) Steffens, the Chairman of the Board of Directors, for various working capital needs. The notes bear interest at 12% per year and are unsecured. In March 2014, Mr. Steffens agreed to extend the maturity date of all outstanding short-term notes until June 30, 2015. In April 2015, the Company entered into agreement with Mr. Steffens to convert $6,950,514 of principal amount of debt into 69,505,140 share of the Company's common stock. Subsequent to the exchange agreement, the Company entered into several short term notes payable with Mr. Steffens for various working capital needs in fiscal 2015 and 2016. The notes vary from non-interest bearing to interest rates of 12% with a maturity date of December 31, 2015. The Company is obligated to repay the notes with the collection of any accounts receivables. The Company had repaid $170,000 in principal as of December 31, 2015. In December 2015, the maturity dates were extended to December 31, 2016. At December 31, 2016, the maturity dates were extended to June 30, 2017. Additionally all notes that were non-interest bearing were amended to an annual interest rate of 10%. At December 31, 2016, the Company was indebted to Mr. Steffens in the approximate amount of $2,879,000 of principal and $1,380,000 of interest.

Although the Company has incurred an operating loss of approximately $3,908,000 for the year ended December 31, 2016, and has a history of operating losses, management believes that its repositioned dual strategy of leading with its Discovery product to use analytics to measure and then manage how work happens as well as concentrating on expanding the indirect channel with more resale and OEM partners, will shorten the sales cycle and allow for value based selling to our customers and prospects. The Company anticipates success in this regard based upon current discussions with active customers and prospects. Should the Company be unable to secure customer contracts that will drive sufficient cash flow to sustain operations, the Company will be forced to seek additional capital in the form of debt or equity financing; however, there can be no assurance that such debt or equity financing will be available on terms acceptable to the Company or at all. As a result of these factors, the report of our independent auditors dated March 31, 2017, on our consolidated financial statements for the period ended December 31, 2016 included an emphasis of matter paragraph indicating that there is a substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements. We have no unconsolidated limited purpose entities, and we have not guaranteed or otherwise supported the obligations of any other entity.

Critical Accounting Policies

The policies discussed below are considered by us to be critical to an understanding of our consolidated financial statements because they require us to apply the most judgment and make estimates regarding matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. With respect to the policies discussed below, we note that because of the uncertainties inherent in forecasting, the estimates frequently require adjustment.

Our consolidated financial statements and related disclosures, which are prepared to conform to accounting principles generally accepted in the United States of America, require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the period reported. We are also required to disclose amounts of contingent assets and liabilities at the date of the consolidated financial statements. Our actual results in future periods could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

We consider the most significant accounting policies and estimates in our consolidated financial statements to be those surrounding: (1) revenue recognition; (2) allowance for doubtful trade accounts receivable; (3) goodwill; and (4) valuation of deferred tax assets. These accounting policies, the basis for any estimates and potential impact to our consolidated financial statements, should any of the estimates change, are further described as follows:

Revenue Recognition. Our revenues are derived principally from three sources: (i) license fees for the use of our software products; (ii) fees for consulting services and training; and (iii) fees for maintenance and technical support. We generally recognize revenue from software license fees when a license agreement has been signed by both parties, the fee is fixed or determinable, collection of the fee is probable, delivery of our products has occurred and no other significant obligations remain.

Revenues from services include fees for consulting services and training. Revenues from services are recognized on either a time and materials or percentage of completion basis as the services are performed and amounts due from customers are deemed collectible and non-refundable.

We apply the provisions of Accounting Standards Codification, or ASC 985-605, Software Revenue Recognition, to all transactions involving the licensing of software products. In the event of a multiple element arrangement for a license transaction, we evaluate the transaction as if each element represents a separate unit of accounting taking into account all factors following the accounting standards. When such estimates are not available, the completed contract method is utilized. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete.

Allowance for Doubtful Trade Accounts Receivable. In addition to assessing the probability of collection in conjunction with revenue arrangements, we continually assess the collectability of outstanding invoices. Assumptions are made regarding the customer's ability and intent to pay and are based on historical trends, general economic conditions, and current customer data. Should our actual experience with respect to collections differ from our initial assessment, there could be adjustments to bad debt expense.

Goodwill. The Company accounts for goodwill in accordance ASC Topic 350 "Intangibles – Goodwill and Other" which requires that goodwill and intangible assets with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value, there would be an adjustment to goodwill.

Valuation of Deferred Tax Assets. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established to the extent that it is more likely than not, that we will be unable to utilize deferred income tax assets in the future. At December 31, 2016, we had a valuation allowance of $56,339,000 against $56,339,000 of gross deferred tax assets. We considered all of the available evidence to arrive at our position on the net deferred tax asset; however, should circumstances change and alter our judgment in this regard, it may have an impact on future operating results.

At December 31, 2016, the Company has net operating loss carryforwards of approximately $143,842,000 which may be applied against future taxable income. These carryforwards will expire at various times between 2020 and 2036.

Recent Accounting Pronouncements:

In January 2017, the FASB issued ASU Update No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment. This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step of the goodwill impairment test under ASC 350. Under previous guidance, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill is calculated by deducting the fair value of all assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1. To determine the implied fair value of goodwill, entities estimate the fair value of any unrecognized intangible assets (including in-process research and development) and any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1. Under this new guidance if a reporting unit's carrying value exceeds its fair value, an entity will record an impairment charge based on that difference with such impairment charge limited to the amount of goodwill in the reporting unit. This ASU does not change the guidance on completing Step 1 of the goodwill impairment test. An entity will still be able to perform today's optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. This ASU will be applied prospectively and is effective for annual and interim impairment test performed in periods beginning after December 15, 2019 for public business enterprises. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements.

In August 2016, the FASB issued a new accounting standard that clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows where diversity in practice exists. The new standard is effective for us in our first quarter of fiscal 2018 and earlier adoption is permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued a new accounting standard intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The new guidance includes provisions to reduce the complexity related to income taxes, statement of cash flows, and forfeitures when accounting for share-based payment transactions. The new standard is effective for annual periods beginning after December 15, 2016, and interim periods within annual periods ending after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact that this new standard will have on its consolidated financial statements and related disclosures.

The FASB's new leases standard ASU 2016-02 Leases (Topic 842) was issued on February 25, 2016. ASU 2016-02 is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets referred to as “Lessees” to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet the new ASU will require both types of leases (i.e. operating and capital) to be recognized on the balance sheet. The FASB lessee accounting model will continue to account for both types of leases. The capital lease will be accounted for in substantially the same manner as capital leases are accounted for under existing GAAP. The operating lease will be accounted for in a manner similar to operating leases under existing GAAP, except that lessees will recognize a lease liability and a lease asset for all of those leases. Public companies will be required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption will be permitted for all companies and organizations upon issuance of the standard. For calendar year-end public companies, this means an adoption date of January 1, 2019 and retrospective application to previously issued annual and interim financial statements for 2018. See Note 7 for the Company’s current lease commitments. The Company is currently in the process of evaluating the impact that this new leasing ASU will have on its financial statements.

In January 2016, the FASB issued a new accounting standard that will enhance the Company’s reporting through the updating of the recognition, measurement, presentation, and disclosure of financial instruments. The new standard is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Earlier adoption for public companies is permitted for interim and annual reporting periods as of the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In August 2014, the FASB issued a new accounting standard that will require management to assess and evaluate whether conditions or events exist, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the financial statements issue date. It is effective for annual periods ending after December 15, 2016 and for annual and interim periods thereafter. early adoption is permitted. The adoption of this standard did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued a new accounting standard update on revenue recognition from contracts with customers. The new guidance will replace most current U.S. GAAP guidance on this topic and eliminate most industry-specific guidance. According to the new guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration for which the Company expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company has not yet selected a transition method and is evaluating the impact of adopting this new accounting standard update on the consolidated financial statements and related disclosures. We expect to identify similar performance obligations under ASC 606 as compared with deliverables and separate units of account previously identified. As a result, we expect timing of our revenue to be very similar to how we record revenue currently.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Consolidated Financial Statements and Supplementary Data

The information required by this item appears beginning on page F-1 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files and submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of December 31, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with our independent registered public accounting firm, Cherry Bekaert LLP, and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors have free access to the Audit Committee.

(b) Management's Responsibility for Consolidated Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the consolidated financial statements fairly represent the Company's consolidated financial position and results of operations for the periods and as of the dates stated therein.

(c) Management's Assessment of Internal Control over Financial Reporting

The management of Cicero Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined by Rules 13a–15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can only provide reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

Under the direction of our Chief Executive Officer and Chief Financial Officer, management completed an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has determined that the Company's system of internal control over financial reporting was effective as of December 31, 2016.

(d) Changes in Internal Control over Financial Reporting

During our fourth fiscal quarter, there has been no change in our internal control over our financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth certain information about our directors and executive officers:

Name	Age	Position(s)
John L Steffens	75	Director and Chairman
John Broderick	67	Director and Chief Executive Officer/Chief Financial Officer
Antony Castagno	49	Chief Technology Officer
Benjamin L. Rosenzweig	31	Director
Thomas Avery	63	Director
Mark Landis	75	Director
Don Peppers	66	Director

John L. Steffens
Director since May, 2007.

Mr. John L. Steffens is the Founder of Spring Mountain Capital, LP, an alternative investment firm located in New York City. Prior to founding Spring Mountain Capital in 2001, Mr. Steffens spent 38 years at Merrill Lynch & Co., Inc., where he held numerous senior management positions, including President of Merrill Lynch Consumer Market, Vice Chairman of Merrill Lynch & Co., Inc., and Chairman of its U.S. Private Client Group. Under his leadership, the Private Client Group experienced tremendous growth, increasing assets under management from $200 billion to $1.6 trillion. Mr. Steffens also served on the board of directors of Merrill Lynch & Co., Inc. from April 1986 until July 2001.

Mr. Steffens has served as Chairman of the Securities Industry Association, as a Trustee of the Committee for Economic Development and is currently National Chairman Emeritus of the Alliance for Aging Research. Mr. Steffens currently serves on the advisory boards of StarVest Partners and Wicks Communication & Media Partners, L.P. He serves on the board of Colony NorthStar, Inc. and Colony Starwood Homes. Mr. Steffens serves as Chairman of the board of directors of Cicero, Inc. In 2011, he was appointed to the Dartmouth Medical School Board of Overseers. In 2010, Mr. Steffens was the recipient of the Billie Jean King Contribution Award from the Women’s Sports Foundation.

In 2001, Mr. Steffens founded Vineyard 7 & 8, a boutique winery producing premium, limited production wine. Vineyard 7 & 8 is operated by the Steffens family and is located on Spring Mountain in Napa Valley, California.

Mr. Steffens graduated from Dartmouth College in 1963 with a B.A. in Economics. He also completed the Advanced Management Program of the Harvard Business School in 1979. We believe Mr. Steffens qualifications to serve on the Board of Directors include his experience in leading complex enterprises and his experience as a senior executive.

John P. Broderick
Director since July 2005.

Mr. Broderick is currently the Chief Executive Officer and Chief Financial Officer of the Company and is also a director. Mr. Broderick has served as the Chief Executive Officer of the Company since June 2005, as the Chief Financial Officer of the Company since April 2001, and as Corporate Secretary since August 2001. Prior to joining our Company, Mr. Broderick was Executive Vice President of Swell Inc., a sports media e-commerce company where he oversaw the development of all commerce operations and served as the organization's interim Chief Financial Officer. Previously, Mr. Broderick served as Chief Financial Officer and Senior Vice President of North American Operations for Programmer's Paradise, a publicly held international software marketer. Mr. Broderick received his B.S. degree in accounting from Villanova University. We believe Mr. Broderick’s qualifications to serve on our Board of Directors include his intimate knowledge of our operations as a result of day to day leadership as our Chief Executive Officer.

Antony Castagno
Director since March 2010.

Mr. Castagno has been the Chief Technology Officer of the Company since January 2010. Mr. Castagno brings over 20 years of leadership and technology experience to Cicero and is responsible for the technology vision and execution for Cicero's customer experience software. Prior to joining Cicero in January 2010, Mr. Castagno was the Chief Executive Officer of SOAdesk LLC, which pioneered the Intelligent Agent Desktop and Customer Interaction Management space. From 2005 to 2007, Mr. Castagno was the co-founder and Chief Technology Officer for OpenSpan, where he led the development of client side integration. Mr. Castagno graduated from the United States Military Academy at West Point in 1989 with a B.S. degree in Computer Science. Over the course of Mr. Castagno's career, he has held leadership and technology positions with Deloitte, Verifone, ADP, Personic and was the founder of Vertical Thought an Atlanta-based technology incubator.

Benjamin L. Rosenzweig
Director since February 2017.

Mr. Rosenzweig was appointed to serve on our Board of Directors in February 2017, pursuant to a director designation right granted to privet Fund LP in connection with its purchase of the Company's common stock and warrants in July 2015. Mr. Rosenzweig is currently a partner at Privet Fund Management LLC, an investment management firm. Prior to joining Privet Fund Management LLC in September 2008, Mr. Rosenzweig served as an investment banking analyst in the corporate finance group of Alvarez and Marsal from June 2007 until May 2008, where he completed multiple distressed mergers and acquisitions, restructurings, capital formation transactions and similar financial advisory engagements across several industries. Mr. Rosenzweig is currently a Director of Startek, Inc., PFSweb, Inc. and Hardinge, Inc. Mr. Rosenzweig formerly served as a Director of RELM Wireless Corp. Mr. Rosenzweig graduated *magna cum laude* from Emory University with a Bachelor of Business Administration degree in Finance and a second major in Economics. We believe Mr. Rosenzweig qualifications to serve on our Board of Directors include his financial background and previous business experience.

Thomas Avery
Director since July 2015.

Mr. Avery was appointed to serve on our Board of Directors in July 2015, pursuant to a director designation right granted to Privet Fund LP in connection with its purchase of the Company's common stock and warrants in July 2015. Mr. Avery has over 37 years of investment banking and venture capital experience which includes serving as a Managing Director at Raymond James & Associates from 2000 until 2014; the head of the investment banking group at Interstate/Johnson-Lane from 1995 to 2000; a general partner at Noro-Moseley Partners from 1989 to 1995; a general partner at Summit Partners from 1984 to 1989; and Senior Vice President at The Robinson-Humphrey Company from 1977 to 1984. During his career as a venture capitalist, Mr. Avery served on numerous private company boards, assisting those companies with advice and help in financing their enterprises; planning and executing growth strategies; and building effective management teams. Mr. Avery is currently serving on the board of directors of KIPP Metro Atlanta, a national charter school organization serving low income, minority children. Mr. Avery also serves on the board of Charles River Associates, a leading global consulting firm. Mr. Avery graduated Summa Cum Laude from the Georgia Institute of Technology with a bachelor's degree in industrial management and from the Harvard Business School with a master's degree in business administration. We believe Mr. Avery's qualifications to serve on our Board of Directors include his over 37 years of investment banking and venture capital experience.

Mark Landis
Director since July 2005.

Mr. Landis has been a Director of the Company since July 2005. Mr. Landis retired in 2003 from Siemens Building Technologies where he had served as President of the North American Security Division. Previously he was CEO of Security Technologies Group from 1988 to 2001, when it was sold to Siemens Building Technologies. In 2008 he became Chairman of Docassist, LLC which became Dataflow Technologies, Inc. as a result of an asset sale. From 1982 to 1988 he was CEO of CASI, a developer of access control security systems. Mr. Landis earned a B.A. from Cornell University, a Juris Doctorate from the University of Pennsylvania and a Chartered Property and Casualty Underwriter (CPCU) degree from the American Institute for Property and Liability Underwriters. We believe Mr. Landis' qualifications to serve on our Board of Directors include his experience in leading enterprises and his experience as a senior executive.

Don Peppers
Director since June 2007.

Mr. Peppers has been a Director since June 20, 2007. Mr. Peppers formed Marketing 1:1, Inc. in January 1992 which became Peppers & Rogers Group, a customer-centered management consulting firm with offices located in the United States, Europe, the Middle East, Latin America and South Africa. He has written or co-authored eleven books on marketing, sales, and customer relationships issues. Peppers & Rogers Group is now a unit of TeleTech Holdings (TTEC), a business process outsourcer based in Denver, Colorado. In 2016 Mr. Peppers left Teletech and formed CX Speakers, LLC, to deliver workshops, keynote addresses, and high-level consulting services to business clients. From October 1990 to January 1992, Mr. Peppers was the Chief Executive Officer of Perkins/Butler Direct Marketing, a top-20 U.S. direct-marketing agency. Prior to marketing and advertising, he worked as an economist in the oil business and as the director of accounting for a regional airline. Mr. Peppers holds a Bachelor's Degree in astronautical engineering from the U.S. Air Force Academy, and a Master's Degree in public affairs from Princeton University's Woodrow Wilson School. We believe Mr. Pepper's qualifications to serve on our Board of Directors include his years of experience providing strategic advisory services to organizations.

There are no family relationships between or among the above directors or executive officers.

Audit Committee

The Audit Committee is composed of Mr. Mark Landis. The responsibilities of the Audit Committee include the appointment of, retention, replacement, compensation and overseeing the work of the Company's independent accountants and tax professionals. The Audit Committee reviews with the independent accountants the results of the audit engagement, approves professional services provided by the accountants including the scope of non-audit services, if any, and reviews the adequacy of our internal accounting controls. The Audit Committee met formally four times during our fiscal year ended December 31, 2016. Mr. Landis attended every meeting while they were appointed to the Audit Committee. The Board of Directors has determined that the members of the Audit Committee are independent as defined in Rule 5605(a)(2) of The NASDAQ Stock Market's listing standards. Mr. Mark Landis is the current "audit committee financial expert" due to his experience as a senior executive.

Code of Ethics and Conduct

Our Board of Directors has adopted a code of ethics and a code of conduct that applies to all of our Directors, Chief Executive Officer, Chief Financial Officer, and employees. We will provide copies of our code of conduct and code of ethics without charge upon request. To obtain a copy of the code of ethics or code of conduct, please send your written request to Cicero Inc., Suite 542, 8000 Regency Pkwy, Cary, North Carolina 27518, Attn: Corporate Secretary. The code of ethics is also available on the Company's website at www.ciceroinc.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers, directors and persons who own more than ten percent of the Company's Common Stock (collectively, "Reporting Persons") to file reports of ownership and changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports they file. Based solely on its review of the copies of such reports received by it and written representations all Section 16(a) reports were filed in a timely manner.

Item 11. Executive Compensation.

Compensation Committee Membership and Organization

The Company no longer has a standing Compensation Committee. The Compensation Committee was disbanded upon the resignation from the Board of Directors of Jay Kingley and Charles Porciello, its former members, on July 15, 2015. The Board of Directors now performs many of the functions of a compensation committee including establishing, implementing and monitoring adherence with the Company's compensation philosophy such as:

- Setting the total compensation of our Chief Executive Officer and evaluating his performance based on corporate goals and objectives;
- Reviewing and approving the Chief Executive Officer's decisions relevant to the total compensation of the Company's other executive officer;
- Making recommendations to the Board of Directors with respect to equity-based plans in order to allow us to attract and retain qualified personnel; and
- Reviewing director compensation levels and practices, and recommending, from time to time, changes in such compensation levels and practices of the Board of Directors.

General Compensation Philosophy

As a technology company, we operate in an extremely competitive and rapidly changing industry. We believe that the skill, talent, judgment and dedication of our executive officers are critical factors affecting the long term value of our company. Our philosophy and objectives in setting compensation policies for executive officers are to align pay with performance, while at the same time providing fair, reasonable and competitive compensation that will allow us to retain and attract superior executive talent. We strongly believe that executive compensation should align executives' interests with those of shareholders by rewarding achievement of specific annual, long-term and strategic goals by the Company, with an ultimate objective of providing long-term stockholder value. The specific goals that our current executive compensation program rewards are focused primarily on revenue growth and profitability. To that end, we believe executive compensation packages provided by the Company to its executive officers should include a mix of both cash and equity based compensation that reward performance as measured against established goals. As a result, the principal elements of our executive compensation are base salary, non-equity incentive plan compensation, long-term equity incentives generally in the form of stock options and/or restricted stock and post-termination severance and acceleration of stock option vesting upon termination and/or a change in control.

Our goal is to maintain an executive compensation program that will fairly compensate our executives, attract and retain qualified executives who are able to contribute to our long-term success, induce performance consistent with clearly defined corporate goals and align our executives' long-term interests with those of our shareholders. The decision on the total compensation for our executive officers is based primarily on an assessment of each individual's performance and the potential to enhance long-term stockholder value. Often, judgment is utilized in lieu of total reliance upon rigid guidelines or formulas in determining the amount and mix of compensation for each executive officer. Factors affecting such judgment include performance compared to strategic goals established for the individual and the Company at the beginning of the year, the nature and scope of the executive's responsibilities and effectiveness in leading initiatives to achieve corporate goals.

Role of Chief Executive Officer in Compensation Decisions

Our Board of Directors determines the base salary (and any bonus and equity-based compensation) for each executive officer annually. John Broderick, our Chief Executive Officer, confers with members of the Board, and makes recommendations, regarding the compensation of all executive officers other than himself. He does not participate in the Board's deliberations regarding his own compensation. In determining the compensation of our executive officers, the Board does not engage in any benchmarking of total compensation or any material element of compensation.

Components of Executive Compensation

The compensation program for our Named Executive Officers consists of:

- Base salary;
- Non-equity incentive plan compensation;
- Long-term equity incentive compensation; and
- Other benefits

Base Salary

The Company provides our executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. The Board considered the scope and accountability associated with each executive officer's position and such factors as the performance and experience of each executive officer, individual leadership and level of responsibility when approving the base salary levels for fiscal year 2016.

Non-Equity Incentive Plan Compensation

Non-equity incentive plan compensation for our executive officers is designed to reward performance against key corporate goals and for certain of our executives for performance against individual business development goals. Our executive officers' incentive targets are designed to motivate management to exceed specific goals related to profitability objectives. We believe that these metrics correlate to stockholder value and individual performance. Our Chief Executive Officer did not achieve a non-equity bonus in fiscal 2016 and achieved a non-equity bonus of $25,000 in fiscal 2015. Our Chief Technology Officer did not achieve a non-equity bonus in fiscal 2016 or 2015.

Our Chief Executive Officer, Mr. Broderick, is eligible for non-equity incentive plan compensation with a target bonus of $75,000 for achieving targeted pretax income for fiscal 2017.

Long-Term Equity Incentive Awards

The Company presently has one equity-based compensation plan under which grants may be made, entitled Cicero Inc. 2007 Employee Stock Option Plan. The Plan provides for the grant of incentive and non-qualified stock options to employees, and the grant of non-qualified options to consultants and to directors and advisory board members. In addition, various other types of stock-based awards, such a stock appreciation rights, may be granted under the Plan. The Plan is administered by the Board of Directors, which determines the individuals eligible to receive options or other awards under the Plan, the terms and conditions of those awards, the applicable vesting schedule, the option price and term for any granted options, and all other terms and conditions governing the option grants and other awards made under the Plan. Under the 2007 Plan, 4,500,000 shares of our common stock were reserved for issuance pursuant to options or restricted stock awards. At December 31, 2016, 1,667,788 shares were available for future option grants and awards.

To date, awards have been mainly in the form of non-qualified stock options granted under the Plan. The Board of Directors grants these stock-based incentive awards from time to time for the purpose of attracting and retaining key executives, motivating them to attain the Company's long-range financial objectives, and closely aligning their financial interests with long-term stockholder interests and share value.

Grants to other employees are typically made upon initial employment and then periodically as the Board so determines. The Board has empowered our Chief Executive Officer to issue grants of up to 75,000 options to new employees at the fair market value of the stock on the date of employment. Any proposed option grants in excess of that amount require Board approval. Our stock options typically vest over two years with one third being immediately vested upon the date of grant and one third vesting on each of the next two anniversaries of the date of grant. During fiscal 2016, the Company did not grant any options to purchase shares to employees.

We account for equity compensation paid to all of our employees under the rules of Financial Accounting Standards Board guidance now codified as ASC 718 “Compensation – Stock Compensation,” which requires us to estimate and record compensation expense over the service period of the award. All equity awards to our employees, including executive officers, and to our directors have been granted and reflected in our consolidated financial statements, based upon the applicable accounting guidance, at fair market value on the date of grant. Generally, the granting of a non-qualified stock option to our executive officers is not a taxable event to those employees, provided, however, that the exercise of such stock would result in taxable income to the optionee equal to the difference between the fair market value of the stock on the exercise date and the exercise price paid for such stock. Similarly, a restricted stock award subject to a vesting requirement is also not taxable to our executive officers unless such individual makes an election under section 83(b) of the Internal Revenue Code of 1986, as amended. In the absence of a section 83(b) election, the value of the restricted stock award becomes taxable to the recipient as the restriction lapses.

Other Benefits

Our executive officers participate in benefit programs that are substantially the same as all other eligible employees of the Company.

The following summary compensation table sets forth the compensation earned by all persons serving as the Company’s executive officers during fiscal years 2016 and 2015.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary	Stock Awards	Non- Equity Incentive Plan Compensation	All Other Compensation (4)	Total
John P. Broderick						
Chief Executive Officer,	2016	$ 175,000(1)	--	$ --	$ 2,383	$ 177,383
Chief Financial Officer,	2015	$ 175,000(1)	--	$ 25,000(3)	$ 7,810	$ 207,810
Corporate Secretary						
Antony Castagno	2016	$ 150,000(2)	--	--	$ 8,616	$ 158,616
Chief Technology Officer	2015	$ 150,000(2)	--	--	$ 7,638	$ 157,638

(1) Mr. Broderick is currently deferring $25,000 of his annual salary which commenced in July 2013.

(2) Mr. Castagno is currently deferring $25,000 of his annual salary which commenced in April 2014.

(3) Non-equity incentive plan compensation for Mr. Broderick includes a bonus for certain revenue transactions earned during fiscal year ended December 31, 2016 and 2015. The revenue transaction was the acceptance of the first contract greater than $300,000 for each fiscal year.

(4) Other compensation includes the Company’s portion of major medical insurance premiums and long-term disability premiums for named executives during fiscal years ended December 31, 2016 and 2015, respectively.

Grants of Plan Based Awards

The Company did not award any stock options to the named executives during fiscal 2016. The Company awarded 211,539 stock options to Mr. Castagno in fiscal 2015. Mr. Broderick did not receive any stock option awards in fiscal 2015. The Company did not award any stock appreciation rights (SARs) during fiscal 2016 and 2015.

The following table presents the number and values of exercisable options as of December 31, 2016 by the named executive.

Outstanding Equity Awards at December 31, 2016

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options # Exercisable (Vested)	Number of Securities Underlying Unexercised Unearned Options# Unexercisable (Unvested)	Option Exercise price ($)	Option Expiration date	Number of Shares of Stock That Have Not Vested	Market Value of Shares of Stock That Have Not Vested
John P. Broderick	549,360(1)	--	$ 0.51	08/17/2017		
	75,000(2)	--	$ 0.09	08/20/2020		
					549,630(4)	$ 3,463
					1,500,000(5)	$ 9,450
Antony Castagno	75,000(2)	--	$ 0.09	08/20/2020		
	141,026(3)	70,513	$ 0.05	07/20/2025		

(1) These options were granted on August 17, 2007. This stock option vested in three equal installments with the first installment vesting on August 17, 2007.

(2) These options were granted on August 20, 2010. This stock option vested in three equal installments with the first installment vesting on August 20, 2010.

(3) These options were granted on July 21, 2015. This stock option vested in three equal installments with the first installment vesting on July 21, 2015.

(4) These are restricted stock granted on August 17, 2007. The shares will vest to him upon his resignation or termination or a change of control.

(5) These are restricted stock granted on November 9, 2012. The shares will vest to him in the event of the termination, with or without cause, of his employment by the Company or his resignation from the Company with or without cause or in the event of a change of control.

Options Exercised and Stock Vested

The named executives did not exercise any options during the year ended December 31, 2016. Mr. Broderick and Mr. Castagno have 624,360 and 286,539 outstanding options respectively at December 31, 2016.

Employment Agreements, Termination of Employment and Change-In-Control Arrangements

Under the employment agreement between the Company and Mr. Broderick effective January 1, 2016, we agreed to pay Mr. Broderick an annual base salary of $175,000 and performance bonuses in cash of up to $250,000 per annum based upon exceeding certain revenue goals and operating metrics, as determined by the Board, in its discretion. Upon termination of Mr. Broderick's employment by the Company without cause, we agreed to pay Mr. Broderick a lump sum payment of one year of Mr. Broderick's then current base salary within 30 days of termination and any unpaid deferred salaries and bonuses. In the event there occurs a substantial change in Mr. Broderick's job duties, there is a decrease in or failure to provide the compensation or vested benefits under the employment agreement or there is a change in control of the Company, we agreed to pay Mr. Broderick a lump sum payment of one year of Mr. Broderick's then current base salary within thirty (30) days of termination. Additionally, as part of his employment agreement for fiscal 2012, Mr. Broderick will be entitled to receive 1,500,000 shares of the Company's common stock in the event of the termination, with or without cause, of his employment by the Company or his resignation from the Company with or without cause or in the event of a change of control (as that term is defined in the Employment Agreement) of the Company. Mr. Broderick will have thirty (30) days from the date written notice is given about either a change in his duties or the announcement and closing of a transaction resulting in a change in control of the Company to resign and execute his rights under this agreement. If Mr. Broderick's employment is terminated for any reason, Mr. Broderick has agreed that, for two (2) year after such termination, he will not directly or indirectly solicit or divert business from us or assist any business in attempting to do so or solicit or hire any person who was our employee during the term of his employment agreement or assist any business in attempting to do so.

Under the employment agreement between the Company and Mr. Castagno effective January 1, 2016, we agreed to pay Mr. Castagno an annual base salary of $150,000 and a performance cash bonus of up to $215,000 per annum based upon exceeding certain pre-tax operating net income metrics, as determined by and at the discretion of the Compensation Committee. If the Company terminates Mr. Castagno's employment without cause, we agreed to pay Mr. Castagno an amount equivalent to six (6) months of Mr. Castagno's then current base salary in equal semi-monthly installments over that six (6) month period following termination. If Mr. Castagno's employment is terminated for any reason, Mr. Castagno has agreed that, for two (2) year after such termination, he will not directly or indirectly solicit or divert business from us, assist any business in attempting to solicit or divert business from us, solicit or hire any person who was our employee during the employment agreement term, or assist any business in attempting to solicit or hire any person who was our employee during the employment agreement term.

Estimated Payments and Benefits Upon Termination

The amount of compensation and benefits payable to the named executive officers has been estimated in the table below and assumes a termination date of December 31, 2016. Since all options held by the executives are out-of-the-money, we have not estimated any value for option acceleration. Deferred compensation reflects amounts voluntarily deferred from salaries during fiscal 2012 through 2016 that had not been paid in fiscal 2016.

	Base Salary	Restricted Shares Award	Deferred Compensation	Total Compensation and Benefits
John P. Broderick				
Death	$ --	$ 12,913	$ 169,792	$ 182,705
Disability	--	12,913	169,792	182,705
Involuntary termination without cause	175,000	12,913	169,792	357,705
Change in Control	175,000	12,913	169,792	357,705
Antony Castagno				
Death	$ --	$ --	$ 75,000	$ 75,000
Disability	--	--	75,000	75,000
Involuntary termination without cause	75,000	--	75,000	150,000
Change in Control	75,000	--	75,000	150,000

The amounts shown in the table above do not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination, such as unreimbursed business expenses payable.

Stock Option Plan

In 2007, the Board of Directors approved the 2007 Cicero Employee Stock Option Plan which permits the issuance of incentive and nonqualified stock options, stock appreciation rights, performance shares, and restricted and unrestricted stock to employees, officers, directors, consultants, and advisors. The aggregate number of shares of common stock that may be issued under this Plan shall not exceed 4,500,000 shares upon the exercise of awards and provide that the term of each award be determined by the Board of Directors. No grants were awarded to our named executive officers during fiscal 2016. During fiscal 2015, the Company granted options to purchase 525,000 shares to its employees. This included 211,539 options to Mr. Castagno.

Director Compensation

No cash or non-cash compensation was paid during fiscal 2016 by us to our non-employee directors who served during fiscal 2016.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth information as of February 28, 2017 with respect to beneficial ownership of shares by (i) each person known to the Company to be the beneficial owner of more than 5% of the outstanding common stock, (ii) each of the Company's directors, (iii) the executive officers of the Company named in the Summary Compensation Table (the "Named Executives") and (iv) all current directors and executive officers of the Company as a group. Unless otherwise indicated, the address for each person listed is c/o Cicero Inc., 8000 Regency Parkway, Suite 542, Cary, North Carolina 27518.

The chart is based on 192,253,005 common shares outstanding as of February 28, 2017. Beneficial ownership is determined in accordance with Rule 13-3(d) promulgated by the SEC under the Securities Exchange Act of 1934. Except as otherwise stated in the footnotes below, the named persons have sole voting and investment power with regard to the shares shown as beneficially owned by such persons.

Name of Beneficial Owner	No. of Common Shares	% of Class
John L. Steffens (1)	153,341,564	65.9%
Privet Fund Management LLC (2)	168,102,778	49.1%
Jonathan Gallen (3)	10,950,173	5.7%
Mark and Carolyn P. Landis (4)	8,564,020	4.4%
Antony Castagno/SOAdesk LLC(5)	17,719,792	8.5%
Thomas Avery (6)	4,605,555	2.3%
Don Peppers (7)	5,429,957	2.8%
John P. Broderick (8)	2,676,968	1.4%
Benjamin Rosenzweig	--	*
All current directors and executive officers as a group (7 persons) (9)	192,337,856	73.8%

* Represents less than one percent of the outstanding shares.

1. The address of John L. Steffens is 65 East 55th Street, New York, N.Y. 10022. Includes 112,932,501 shares of common stock, 40,391,063 shares issuable upon the exercise of warrants and 18,000 shares subject to stock options.

2. Ryan Levinson holds voting and dispositive power with respect to these shares. The address of Mr. Levinson is 79 West Paces Ferry Road, Atlanta, GA 30305. Includes 18,250,000 shares of common stock and 149,852,778 shares issuable upon the exercise of warrants.

3. The address of Mr. Gallen is 299 Park Avenue New York, New York 10171. Ahab Partner, L.P. ("Partners"), Ahab International, Ltd. ("International"), Queequeg Partners, L.P. ("Queequeg") and Queequeg, Ltd. ("Limited," and collectively with Partners, International and Queequeg, the "Funds") held in aggregate 10,950,173 shares of common stock. Jonathan Gallen possesses the sole power to vote and the sole power to direct the disposition of all securities of the Company held by the Funds. In addition, Jonathan Gallen held the power to direct the disposition of 100,000 shares of common stock held in private investment account. Accordingly, for the purposes of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, Mr. Gallen may be deemed to beneficially own 10,950,173 shares of common stock of the Company.

4. The address of Mark and Carolyn P. Landis is 54 Dillon Way, Washington Crossing, Pa. 18977. Includes 5,472,853 shares of common stock, 3,079,167 shares issuable upon the exercise of warrants and 12,000 shares subject to stock options.

5. The address of Mr. Castagno is 8000 Regency Parkway, Suite 542, Cary, NC 27518. Mr. Castagno is a principal owner of SOAdesk LLC. Includes 2,000,000 shares of common stock, 6,511,967 shares of common stock issuable upon conversion of a convertible promissory note in the principal amount of $700,000 and accumulated interest of $277,000, 6,112,600 common shares issuable upon conversion of a convertible promissory note in the principal amount of $675,000 and accumulated interest of $242,000, 2,808,687 common shares issuable upon conversion of a convertible promissory note of $421,303 and 286,539 shares subject to stock options.

6. Includes 500,000 shares of common stock and 4,105,555 shares issuable upon the exercise of warrants.

7. Includes 3,165,179 shares of common stock, warrants to acquire 2,252,778 shares of common stock and 12,000 shares subject to stock options.

8. Includes 3,248 shares of common stock. 624,360 shares subject to stock options exercisable within sixty (60) days and 2,049,360 shares of restricted stock that is awarded upon termination or change of control.

9. Includes shares issuable upon conversion of convertible promissory notes and exercise of options and warrants as described in above Notes for each director and officer.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Loans from Related Parties

From time to time during 2012 through 2015, the Company entered into several short-term notes payable with John L. (Launny) Steffens, the Chairman of the Board of Directors, for various working capital needs. The notes bear interest at 12% per year and are unsecured. In March 2014, Mr. Steffens agreed to extend the maturity date of all outstanding short-term notes until April 1, 2015. At December 31, 2014, the Company was indebted to Mr. Steffens in the approximate amount of $6,691,000 of principal and $1,139,000 in interest. In April 2015, the Company entered into agreement with Mr. Steffens to convert $6,950,514 of principal amount of debt into 69,505,140 share of the Company's common stock. Subsequent to the exchange agreement, the Company entered into several short term notes payable with Mr. Steffens for various working capital needs in fiscal 2015 and 2016. The notes vary from non-interest bearing to interest rates of 12% with a maturity date of December 31, 2015. The Company is obligated to repay the notes with the collection of any accounts receivables. The Company had repaid $170,000 in principal as of December 31, 2015. In December 2015, the maturity dates were extended to December 31, 2016. At December 31, 2016, the maturity dates were extended to June 30, 2017. Additionally all notes that were non-interest bearing were amended to an annual interest rate of 10%. At December 31, 2016, the Company was indebted to Mr. Steffens in the approximate amount of $2,879,000 of principal and $1,380,000 of interest.

In June 2015, the Company entered into a promissory note with SOAdesk for fifty percent of the earn-out payable ($421,303) to SOAdesk. The maturity date of the note was December 31, 2015 with an annual interest rate of 10%. In December 2015, the maturity date was extended to December 31, 2016. In December 2016, the maturity date was extended to December 31, 2017. Included in this last amendment were two milestone payments of $62,500 each to be paid to interest first and then principal and payable on June 1, 2017 and December 1, 2017, respectively. The Company's Chairman has agreed to personally guarantee these, and only these, milestone payments.

Antony Castagno, the Company's Chief Technology Officer, is part-owner of SOAdesk LLC which was acquired by the Company in 2010. In January 2016, the Company entered into a short term note payable for $3,500 with Mr. Castagno for various working capital needs. The note bore interest of 10% and was unsecured. The note and interest of $28 were paid in full in February 2016.

Director Independence

Our Board of Directors currently consists of six members. They are John L. Steffens, John P. Broderick, Benjamin Rosenzweig, Thomas Avery, Mark Landis, and Don Peppers. Mr. Steffens is the Company's Chairman of the Board, Mr. Broderick is the Company's Chief Executive Officer and Chief Financial Officer. The Company's stock is quoted on the Over The Counter Bulletin Board, which does not have director independence requirements. Under Item 407(a) of Regulation S-K, the Company has chosen to measure the independence of its directors under the definition of independence used by the NYSE MKT LLC (the former American Stock Exchange), which can be found in the NYSE MKT Company Guide, §803(A)(2). Under such definition, Messrs. Steffens, Rosenzweig, Avery, Landis, and Peppers are independent directors.

Item 14. Principal Accountant Fees and Services

Independent Registered Public Accounting Firm

Cherry Bekaert LLP audited our consolidated financial statements for the years ended December 31, 2016 and 2015.

Audit Fees

Audit fees include fees for the audit of the Company's annual consolidated financial statements, fees for the review of the Company's interim consolidated financial statements, and fees for services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements. The aggregate fees billed by Cherry Bekaert LLP for professional services rendered to our company for the audit of the Company's annual consolidated financial statements for fiscal year 2016 and 2015 (and reviews of quarterly consolidated financial statements on Form 10-Q) were $85,500 and $84,462, respectively.

Audit-Related Fees

Audit-related fees include fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements. There were no audit-related fees billed by Cherry Bekaert LLP for fiscal year 2016. Audit-related fees billed by Cherry Bekaert LLP for fiscal year 2015 were $6,725.

Tax Fees

Tax fees include fees for tax compliance, tax advice and tax planning. There were no fees billed by Cherry Bekaert LLP for these services in 2016 and 2015.

Other Fees

All other fees include fees for all services except those described above. There were no other fees billed by Cherry Bekaert LLP for fiscal years 2016 and 2015.

Determination of Auditor Independence

The Audit Committee considered the provision of non-audit services by Cherry Bekaert LLP and determined that the provision of such services was consistent with maintaining the independence of Cherry Bekaert LLP.

Audit Committee's Pre-Approval Policies

The Audit Committee has adopted a policy that all audits, audit-related, tax and any other non-audit service to be performed by the Company's independent registered public accounting firm must be pre-approved by the Audit Committee. It is the Company's policy that all such services be pre-approved prior to commencement of the engagement. The Audit Committee is also required to pre-approve the estimated fees for such services, as well as any subsequent changes to the terms of the engagement.

PART IV

Item 15. Exhibits and Consolidated Financial Statement Schedules

(A) Consolidated Financial Statements

The following consolidated financial statements of the Company and the related reports of Independent Registered Public Accounting Firm thereon are set forth immediately following the Index of Consolidated Financial Statements which appears on page F-1 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2016 and 2015

Consolidated Statements of Operations for the years ended December 31, 2016 and 2015

Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2016 and 2015

Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015

Notes to Consolidated Financial Statements

(B) Financial Statement Schedules

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(C) Exhibits

The exhibits listed under the Exhibit Index are filed as part of this Annual Report on Form 10-K.

Exhibit Index

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation of Cicero Inc., a Delaware corporation, (incorporated by reference to Annex A to Cicero's Definitive Proxy Statement on Schedule 14A filed August 27, 2015).
3.4	Amended and Restated Bylaws of Cicero Inc., a Delaware corporation (incorporated by reference to exhibit 3.1 to Cicero's Form 8-K filed July 16, 2015).
4.1	Form of Long-term Promissory Note Stock Purchase Warrant (incorporated by reference to exhibit 4.19 to Cicero Inc.'s Form 10-K filed March 31, 2008).
4.2	Form of Long-term Promissory Note Stock Purchase Warrant (incorporated by reference to exhibit 4.17 to Cicero Inc.'s Form 10-K filed March 31, 2009).
4.3	Form of Amended Long-term Promissory Note Stock Purchase Warrant (incorporated by reference to exhibit 4.3 to Cicero Inc.'s Form 10-K filed March 31, 2011).
4.4	Form of Investor Warrant Agreement (incorporated by reference to exhibit 4.4 to Cicero Inc.'s Form 10-K filed March 31, 2014)
4.5	Form of Warrant to Purchase Shares of Common Stock (incorporated by reference to exhibit 10.3 to Cicero Inc.'s Form 8-K filed July 16, 2015)
10.2	Amended PCA Shell License Agreement, dated as of January 3, 2002, between Level 8 Systems, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.2 to Level 8's Form 8-K, filed January 11, 2002).
10.3A	PCA Shell License Agreement between Level 8 Systems, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.2 to Level 8's Report on Form 8-K, filed September 11, 2000).
10.3B	OEM License Agreement between Cicero Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.12A to Cicero Inc.'s Form 10-K filed March 31, 2008).
10.3C	Software Support and Maintenance Schedule between Cicero Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.12A to Cicero Inc.'s Form 10-K filed March 31, 2008).
10.10	Cicero Inc. 2007 Employee Stock Option Plan (incorporated by reference to exhibit 10.22 to Cicero Inc.'s Form 10-K filed March 31, 2008).
10.21	Registration Rights Agreement, dated as of January 15, 2010, by and among Cicero Inc. and the Purchasers thereto (incorporated by reference to exhibit 4.4 to Cicero Inc.'s Form 8-K filed January 20, 2010).
10.22	Form of Short Term Secured Promissory Note of Cicero Inc. among Cicero Inc. and John Broderick (incorporated by reference to exhibit 10.22 to Cicero Inc.'s Form 10-K filed March 31, 2014).
10.23	Source Code License Agreement between Cicero Inc. and Convergys Customer Management Group Inc. (incorporated by reference to exhibit 10.16 to Cicero Inc., Form 10-K filed April 16, 2012).
10.9	Lease Agreement for Cary, N.C. offices, dated July 21, 2010, between Cicero Inc. and Regency Park Corporation (incorporated by reference to exhibit 10.9 to Cicero Inc.'s Form 10-K filed March 31, 2011).
10.24	Form of Short-Term Promissory Note of Cicero Inc. among Cicero Inc. and John L. Steffens (incorporated by reference to exhibit 10.16 to Cicero Inc., Form 10-K filed April 16, 2012).

10.25 Form of Short-Term Promissory Note of Cicero Inc. among Cicero Inc. and Antony Castagno (incorporated by reference to exhibit 10.25 to Cicero Inc.'s Form 10-K filed March 31, 2014).

10.26 Amended Employment Agreement between John P. Broderick and the Company effective January 1, 2012 (incorporated by reference to exhibit 10.26 to Cicero Inc., Form 10-K filed April 15, 2013)*

10.27 Registration Rights Agreement, dated as of March 20, 2013, by and among Cicero Inc. and the Purchasers thereto (incorporated by reference to exhibit 10.27 to Cicero Inc.'s Form 10-K filed March 31, 2014).

10.28 Form of Securities Purchase Agreement by and among Cicero, Inc. and the Purchasers thereto (incorporated by reference to exhibit 10.28 to Cicero Inc.'s Form 10-K filed March 31, 2014).

10.29 Amended Employment Agreement between Antony Castagno and the Company effective July 3, 2013 (incorporated by reference to exhibit 10.29 to Cicero Inc.'s Form 10-K filed March 31, 2014)*.

10.30 Lease Agreement for Cary, N.C. offices, dated July 11, 2014, between Cicero Inc. and Regency Park Corporation (incorporated by reference to exhibit 10.30 to Cicero Inc.'s Form 10-K filed March 31, 2015).

10.31 Stock and Warrant Purchase Agreement, dated as of July 15, 2015, by and among Cicero Inc. and the purchasers named thereto (incorporated by reference to exhibit 10.1 to Cicero's Form 8-K filed July 16, 2015)

9.32 Investor Rights Agreement, dated as of July 15, 2015, by and among Cicero Inc., Privet Fund LP and John L. Steffens (incorporated by reference to exhibit 10.2 to Cicero's Form 8-K filed July 16, 2015)

10.33 Form of Indemnification Agreement for Directors of Cicero Inc. (incorporated by reference to exhibit 10.4 to Cicero's Form 8-K filed July 16, 2015)

10.34 Form of Inventions and Non-Competition Agreement for Employees of Cicero Inc. (incorporated by reference to exhibit 10.5 to Cicero's Form 8-K filed July 16, 2015)

10.35 Lease Agreement for Cary, N.C. offices, dated October 26, 2016, between Cicero Inc. and Regency Park Corporation (filed herewith)

14.1 Code of Ethics (incorporated by reference to exhibit 14.1 to Level 8's Form 10-K/A, filed March 31, 2004).

21.1 List of subsidiaries of the Company (filed herewith).

23.1 Consent of Independent Registered Public Accounting Firm (filed herewith).

31.1 Certification of Chief Executive pursuant to Rule 13a-14(a) (filed herewith).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).

32.1 Certification of John P. Broderick pursuant to 18 USC § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* Management contract or compensatory agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CICERO INC.

By: /s/ John P. Broderick
John P. Broderick
Chief Executive Officer and Chief Financial Officer
Date: March 31, 2017

Pursuant to the requirements of the Securities and Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed the report below.

Signature	Title	Date
/s/John L. Steffens John L. Steffens	Chairman of the Board	March 31, 2017
/s/ John P. Broderick John P. Broderick	Chief Executive Officer/Chief Financial Officer (Principal Executive and Financial and Accounting Officer)	March 31, 2017
/s/ Antony Castagno Antony Castagno	Chief Technology Officer	March 31, 2017
/s/ Benjamin L. Rosenzweig Benjamin L. Rosenzweig	Director	March 31, 2017
/s/ Thomas Avery Thomas Avery	Director	March 31, 2017
/s/ Mark Landis Mark Landis	Director	March 31, 2017
/s/ Don Peppers Don Peppers	Director	March 31, 2017

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Cicero Inc.
Cary, North Carolina

We have audited the accompanying consolidated balance sheets of Cicero Inc. and Subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years in the two-year period ended December 31, 2016. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a working capital deficiency as of December 31, 2016. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Cherry Bekaert LLP
Raleigh, North Carolina
March 31, 2017

CICERO INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash	$ 91	$ 1,009
Trade accounts receivable	278	256
Prepaid expenses and other current assets	34	235
Total current assets	403	1,500
Property and equipment, net	9	11
Goodwill (Note 4)	--	1,658
Total assets	$ 412	$ 3,169
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Short-term debt less unamortized discount (Note 5)	$ 5,483	$ 2,098
Accounts payable	1,032	1,336
Accrued expenses:		
Salaries, wages, and related items	1,529	1,601
Interest payable	2,164	2,021
Other	589	653
Deferred revenue	748	605
Total current liabilities	11,545	8,314
Long-term debt	--	2,132
Total liabilities	$ 11,545	$ 10,446
Commitments and contingencies (Notes 12 and 13)		
Stockholders' deficit:		
Convertible preferred stock, $0.001 par value, 10,000,000 shares authorized Series		
A-1 – No shares issued and outstanding at December 31, 2016 and December 31, 2015; $500 per share liquidation preference	--	--
Series B – No shares issued and outstanding at December 31, 2016 and December 31, 2015; $500 per share liquidation preference	--	--
Common stock, $0.001 par value, 600,000,000 shares authorized at December 31, 2016 and December 31, 2015; 192,253,005 issued and outstanding at December 31, 2016 and December 31, 2015 (Note 8)	192	192
Additional paid-in-capital	246,272	246,220
Accumulated deficit	(257,597)	(253,689)
Total stockholders' deficit	(11,133)	(7,277)
Total liabilities and stockholders' deficit	$ 412	$ 3,169

The accompanying notes are an integral part of the consolidated financial statements.

CICERO INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years Ended December 31,	
	2016	2015
Revenue:		
Software	$ 83	$ 391
Maintenance	885	1,479
Services	283	73
Total operating revenue	1,251	1,943
Cost of revenue:		
Software	--	--
Maintenance	159	108
Services	423	579
Total cost of revenue	582	687
Gross margin	669	1,256
Operating expenses:		
Sales and marketing	515	1,080
Research and product development	1,163	1,445
General and administrative	878	1,151
Goodwill impairment charge	1,658	--
Total operating expenses	4,214	3,676
Loss from operations before other income (charges)	(3,545)	(2,420)
Other income (charges):		
Interest expense	(450)	(422)
Other (Note 1)	87	(1)
	(363)	(423)
Net loss	(3,908)	(2,843)
8% preferred stock Series B dividend	--	(86)
Deemed dividend applicable to warrant purchase	--	(882)
Net loss applicable to common stockholders	$ (3,908)	$ (3,811)
Loss per share – basic and diluted	$ (0.02)	$ (0.03)
Average shares outstanding – basic and diluted	192,253	152,076

The accompanying notes are an integral part of the consolidated financial statements.

CICERO INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(in thousands, except share amounts)

	Common Stock		Preferred Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	(Deficit)	Total
Balance at December 31, 2014	85,848,237	86	11,899	--	237,206	(249,878)	(12,586)
Dividend for preferred B stock						(86)	(86)
Conversion of preferred stock	11,899,628	12	(11,899)		(12)		--
Issuance of stock for payment of debt	69,505,140	69			6,882		6,951
Options issued as compensation					12		12
Issuance of common stock	25,000,000	25			1,857	(882)	1,000
Debt discount due to imputed interest					275		275
Net loss						(2,843)	(2,843)
Balance at December 31, 2015	192,253,005	$ 192	--	--	$ 246,220	$ (253,689)	$ (7,277)
Options issued as compensation					3		3
Debt discount due to imputed interest					49		49
Net loss						(3,908)	(3,908)
Balance at December 31, 2016	192,253,005	$ 192	--	--	$ 246,272	$ (257,597)	$ (11,133)

The accompanying notes are an integral part of the consolidated financial statements.

CICERO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (3,908)	$ (2,843)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5	13
Stock compensation expense	3	12
Amortization of debt discount	268	56
Goodwill impairment charge	1,658	--
Gain on write down of liabilities	(87)	--
Changes in assets and liabilities:		
Trade accounts receivable	(22)	779
Prepaid expenses and other assets	201	2
Accounts payable and accrued expenses	(224)	709
Deferred revenue	157	(794)
Net cash used in operating activities	(1,949)	(2,066)
Cash flows from investing activities:		
Purchases of property and equipment	(3)	(10)
Net cash used in investing activities	(3)	(10)
Cash flows from financing activities:		
Issuance of common stock	--	1,000
Borrowings under short and long-term debt	1,038	2,275
Repayments of short and long-term debt	(4)	(210)
Net cash provided by financing activities	1,034	3,065
Net increase(decrease) in cash	(918)	989
Cash at beginning of year	1,009	20
Cash at end of year	$ 91	$ 1,009

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:		
Taxes	$ 11	$ 10
Interest	$ 38	$ 20

Non-Cash Investing and Financing Activities

2016

None.

2015

During April 2015, the Company converted $6,951 of debt to related party lender by issuing 69,505,140 shares of its common stock.

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1. SUMMARY OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Cicero Inc., (''Cicero'' or the ''Company''), is a provider of business integration software which enables organizations to integrate new and existing information and processes at the desktop. Business integration software addresses the emerging need for a company's information systems to deliver enterprise-wide views of the company's business information processes. Cicero Inc. was incorporated in New York in 1988 as Level 8 Systems, Inc. and re-incorporated in Delaware in 1999.

Going Concern and Management Plans:

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred an operating loss of approximately $3,908,000 for the year ended December 31, 2016, and has a history of operating losses. Management believes that its repositioned dual strategy of leading with its Discovery product to use analytics to measure and then manage how work happens, as well as, concentrating on expanding the indirect channel with more resale and OEM partners will shorten the sales cycle and allow for value based selling to our customers and prospects. The Company anticipates success in this regard based upon current discussions with active customers and prospects. Should the Company be unable to secure customer contracts that will drive sufficient cash flow to sustain operations, the Company will be forced to seek additional capital in the form of debt or equity financing; however, there can be no assurance that such debt or equity financing will be available. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All of the Company's subsidiaries are wholly owned for the periods presented.

All significant inter-company accounts and transactions are eliminated in consolidation.

Use of Estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates. Significant estimates include the recoverability of long-lived assets, valuation and recoverability of goodwill, stock based compensation, revenue recognition, deferred taxes and related valuation allowances and valuation of equity instruments.

Financial Instruments:

The carrying amount of the Company's financial instruments, representing accounts receivable, accounts payable and short-term debt approximate their fair value due to their short-term nature.

Cash:

The Company places substantially all cash with various financial institutions. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts. The Company from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2016, the Company did not exceed these insured amounts.

Trade Accounts Receivable:

Trade accounts receivable are stated in the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance of doubtful accounts based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance of doubtful accounts and a credit to trade accounts receivable. Changes in the allowance for doubtful accounts have not been material to the consolidated financial statements.

Property and Equipment:

Property and equipment purchased in the normal course of business is stated at cost, and property and equipment acquired in business combinations is stated at its fair market value at the acquisition date. All property and equipment is depreciated using the straight-line method over estimated useful lives.

Expenditures for repairs and maintenance are charged to expense as incurred.

The cost and related accumulated depreciation of property and equipment are removed from the accounts upon retirement or other disposition and any resulting gain or loss is reflected in the Consolidated Statements of Operations.

Long-Lived Assets:

The Company reviews the recoverability of long-lived intangible assets when circumstances indicate that the carrying amount of assets may not be recoverable. This evaluation is based on various analyses including undiscounted cash flow projections. In the event undiscounted cash flow projections indicate impairment, the Company would record an impairment based on the fair value of the assets at the date of the impairment. The Company accounts for impairments under the Financial Accounting Standards Board ("FASB") guidance now codified as Accounting Standards Codification ("ASC") 360 "Property, Plant and Equipment."

Accrued Other:

Accrued other is primarily comprised of accrued dividends of $447,000 at December 31, 2016 and 2015, respectively, and the remaining balance is comprised of accrued tax, royalty, consulting and other.

Revenue Recognition:

We derive revenue from three sources: license fees, maintenance and support revenue and professional services. Maintenance and support consists of technical support. Professional services primarily consists of consulting, implementation services and training. Significant management judgments and estimates are made and used to determine the revenue recognized in any accounting period. Material differences may result in changes to the amount and timing of our revenue for any period if different conditions were to prevail. We present revenue, net of taxes collected from customers and remitted to governmental authorities.

We apply the provisions of ASC 985-605, Software Revenue Recognition, to all transactions involving the licensing of software products. In the event of a multiple element arrangement for a license transaction, we evaluate the transaction as if each element represents a separate unit of accounting taking into account all factors following the accounting standards. When such estimates are not available, the completed contract method is utilized. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete.

When licenses are sold together with system implementation and consulting services, license fees are recognized upon delivery, provided that (i) payment of the license fees is not dependent upon the performance of the consulting and implementation services, (ii) the services are available from other vendors, (iii) the services qualify for separate accounting as we have sufficient experience in providing such services, have the ability to estimate cost of providing such services, and have vendor-specific objective evidence of fair value, and (iv) the services are not essential to the functionality of the software.

We use signed software license and services agreements and order forms as evidence of an arrangement for sales of software, maintenance and support. We use signed engagement letters to evidence an arrangement for professional services.

License Revenue
We recognize license revenue when persuasive evidence of an arrangement exists, the product has been delivered, no significant obligations remain, the fee is fixed or determinable, and collection of the resulting receivable is probable. In software arrangements that include rights to multiple software products and/or services, we use the residual method under which revenue is allocated to the undelivered elements based on vendor-specific objective evidence of the fair value of such undelivered elements. The residual amount of revenue is allocated to the delivered elements and recognized as revenue, assuming all other criteria for revenue recognition have been met. Such undelivered elements in these arrangements typically consist of software maintenance and support, implementation and consulting services.

Software is delivered to customers electronically. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. We have standard payment terms included in our contracts. We assess collectability based on a number of factors, including the customer's past payment history and its current creditworthiness. If we determine that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

We consider a software element to exist when we determine that the customer has the contractual right to take possession of our software. Professional services are recognized as described below under "Professional Services Revenue." If vendor-specific evidence of fair value cannot be established for the undelivered elements of an agreement, the entire amount of revenue from the arrangement is recognized ratably over the period that these elements are delivered.

Maintenance Revenue
We use vendor-specific objective evidence of fair value for maintenance and support to account for the arrangement using the residual method, regardless of any separate prices stated within the contract for each element. Maintenance and support revenue is recognized ratably over the term of the maintenance contract, which is typically one year. Maintenance and support is renewable by the customer on an annual basis. Maintenance and support rates, including subsequent renewal rates, are typically established based upon a specified percentage of net license fees as set forth in the arrangement.

Professional Services Revenue
Included in professional services revenue is revenue derived from system implementation, consulting and training. For software transactions, the majority of our consulting and implementation services and accompanying agreements qualify for separate accounting. We use vendor-specific objective evidence of fair value for the services to account for the arrangement using the residual method, regardless of any separate prices stated within the contract for each element. Our consulting and implementation service contracts are bid on a fixed-fee basis. For fixed fee contracts, where the services are not essential to the functionality, we recognize revenue as services are performed. If the services are essential to functionality, then both the product license revenue and the service revenue are deferred until the services are performed.

Training revenue that meets the criteria to be accounted for separately is recognized when training is provided.

Cost of Revenue:

The primary component of the Company's cost of revenue for maintenance and services is compensation expense.

Advertising Expenses:

The Company expenses advertising costs as incurred. Advertising expenses were approximately $117,000 and $217,000 for the years ended December 31, 2016 and 2015, respectively.

Research and Product Development:

Research and product development costs are expensed as incurred unless such costs meet the software capitalization criteria. Research and development expenses were approximately $1,163,000 and $1,445,000 for the years ended December 31, 2016 and 2015, respectively.

Goodwill impairment charge:

In 2016, we recorded a non-cash goodwill impairment charge of $1,658,000. We test goodwill for impairment annually on December 31 using a discounted cash flow methodology. Our goodwill impairment test as of December 31, 2016, indicated that the carrying value of our SOAdesk acquisition goodwill exceeded its estimated fair value. Accordingly, we recorded a non-cash, non-tax deductible goodwill impairment charge of $1,658,000 in fiscal year 2016, reducing our goodwill from $1,658,000 to zero. No impairment of goodwill was identified as of December 31, 2015.

Other Income/(Charges):

Other income/(charges) in fiscal 2016 consists primarily of a write off of certain liabilities deemed no longer payable of $87,000.

Income Taxes:

The Company uses FASB guidance now codified as ASC 740 “Income Taxes” to account for income taxes. This statement requires an asset and liability approach that recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company’s consolidated financial statements or tax returns. In estimating future tax consequences, all expected future events, other than enactments of changes in the tax law or rates, are generally considered. A valuation allowance is recorded when it is ‘’more likely than not’’ that recorded deferred tax assets will not be realized. (See Note 6.)

Loss Per Share:

Basic loss per share is computed based upon the weighted average number of common shares outstanding. Diluted loss per share is computed based upon the weighted average number of common shares outstanding and any potentially dilutive securities. During 2016 and 2015, potentially dilutive securities included stock options, warrants to purchase common stock, and preferred stock.

The following table sets forth the potential shares that are not included in the diluted net loss per share calculation because to do so would be anti-dilutive for the periods presented:

	2016	2015
Stock options	2,832,212	3,657,110
Warrants	207,859,113	207,959,113
Preferred stock	--	--
	210,691,325	211,616,223

There was no accrual for dividends on the Series B Preferred Stock in fiscal 2016. $86,000 was accrued for dividends on the Series B Preferred Stock in fiscal year 2015.

Stock-Based Compensation:

The Company accounts for stock-based compensation to employee under ASC 718 “Compensation – Stock Compensation,” which addresses the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise’s equity instruments or that may be settled by the issuance of such equity instruments. The Company did not grant any options in fiscal year 2016 and recognized approximately $3,000 of stock-based compensation. The Company granted 525,000 options in fiscal year 2015 at an exercise price of $0.05 per share and recognized approximately $12,000 of stock-based compensation.

The fair value of the Company’s stock-based awards to employees was estimated as of the date of the grant using the Black-Scholes option-pricing model, using the following weighted-average assumptions:

	2016	2015
Fair value of common stock	--	$ 0.05
Expected life (in years)	--	9.99 years
Expected volatility	--	160%
Risk free interest rate	--	2.33%
Expected dividend yield	--	0%

Recent Accounting Pronouncements:

In January 2017, the FASB issued ASU Update No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment. This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step of the goodwill impairment test under ASC 350. Under previous guidance, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill is calculated by deducting the fair value of all assets and liabilities of the reporting unit from the reporting unit’s fair value as determined in Step 1. To determine the implied fair value of goodwill, entities estimate the fair value of any unrecognized intangible assets (including in-process research and development) and any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1. Under this new guidance if a reporting unit’s carrying value exceeds its fair value, an entity will record an impairment charge based on that difference with such impairment charge limited to the amount of goodwill in the reporting unit. This ASU does not change the guidance on completing Step 1 of the goodwill impairment test. An entity will still be able to perform today’s optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. This ASU will be applied prospectively and is effective for annual and interim impairment test performed in periods beginning after December 15, 2019 for public business enterprises. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements.

In August 2016, the FASB issued a new accounting standard that clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows where diversity in practice exists. The new standard is effective for us in our first quarter of fiscal 2018 and earlier adoption is permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued a new accounting standard intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The new guidance includes provisions to reduce the complexity related to income taxes, statement of cash flows, and forfeitures when accounting for share-based payment transactions. The new standard is effective for annual periods beginning after December 15, 2016, and interim periods within annual periods ending after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact that this new standard will have on its consolidated financial statements and related disclosures.

The FASB's new leases standard ASU 2016-02 Leases (Topic 842) was issued on February 25, 2016. ASU 2016-02 is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets referred to as “Lessees” to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet the new ASU will require both types of leases (i.e. operating and capital) to be recognized on the balance sheet. The FASB lessee accounting model will continue to account for both types of leases. The capital lease will be accounted for in substantially the same manner as capital leases are accounted for under existing GAAP. The operating lease will be accounted for in a manner similar to operating leases under existing GAAP, except that lessees will recognize a lease liability and a lease asset for all of those leases. Public companies will be required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption will be permitted for all companies and organizations upon issuance of the standard. For calendar year-end public companies, this means an adoption date of January 1, 2019 and retrospective application to previously issued annual and interim financial statements for 2018. See Note 7 for the Company’s current lease commitments. The Company is currently in the process of evaluating the impact that this new leasing ASU will have on its financial statements.

In January 2016, the FASB issued a new accounting standard that will enhance the Company’s reporting through the updating of the recognition, measurement, presentation, and disclosure of financial instruments. The new standard is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within that annual periods. Earlier adoption for public companies is permitted for interim and annual reporting periods as of the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In August 2014, the FASB issued a new accounting standard that will require management to assess and evaluate whether conditions or events exist, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the financial statements issue date. It is effective for annual periods ending after December 15, 2016 and for annual and interim periods thereafter. early adoption is permitted. The adoption of this standard did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued a new accounting standard update on revenue recognition from contracts with customers. The new guidance will replace most current U.S. GAAP guidance on this topic and eliminate most industry-specific guidance. According to the new guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration for which the Company expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company has not yet selected a transition method and is evaluating the impact of adopting this new accounting standard update on the consolidated financial statements and related disclosures. We expect to identify similar performance obligations under ASC 606 as compared with deliverables and separate units of account previously identified. As a result, we expect timing of our revenue to be very similar to how we record revenue currently.

NOTE 2. ACCOUNTS RECEIVABLE

Trade accounts receivable was composed of the following at December 31 (in thousands):

	2016	2015
Current trade accounts receivable	$ 278	$ 256

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment was composed of the following at December 31 (in thousands):

	2016	2015
Computer equipment	$ 138	$ 160
Furniture and fixtures	19	24
Office equipment	35	35
	193	219
Less: accumulated depreciation	(184)	(208)
	$ 9	$ 11

Depreciation expense of property and equipment was $5,000 and $13,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 4. INTANGIBLE ASSET, NET AND GOODWILL

The Company accounts for goodwill in accordance ASC Topic 350 “Intangibles – Goodwill and Other” which requires that goodwill and intangible assets with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill includes the excess of the purchase price over the fair value of net assets acquired of $2,832,000 in connection with the SOAdesk LLC acquisition in 2010. ASC Topic 350 requires that goodwill be tested for impairment at the reporting unit level. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value.

Pursuant to accounting guidance, the Company may elect to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company is not required to calculate the fair value of a reporting unit unless the Company determines that it is more likely than not that its fair value is less than its carrying amount. If the Company determines that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test is performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying value exceeds its fair value, the second step would need to be conducted; otherwise, no further steps are necessary as no potential impairment exists. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of that goodwill. Any excess of the goodwill carrying value over the respective implied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value.

Upon completion of the fiscal year 2016 test, the goodwill of our SOA acquisition was determined to be impaired and the Company recorded an impairment charge of $1,658,000. There was no impairment of goodwill in year 2015.

	Goodwill
Balance at December 31, 2014	$ 1,658,000
Additions	--
Impairment	--
Balance at December 31, 2015	1,658,000
Additions	--
Impairment	1,658,000
Balance at December 31, 2016	$ --

NOTE 5. DEBT

Debt and notes payable to related parties consists of the following (in thousands):

	December 31, 2015	December 31, 2015
Note payable – asset purchase agreement (a)	$ 1,518	$ 1,518
Note payable – related parties (b)	2,879	1,845
Notes payable (c)	1,086	1,086
Unamortized debt discount (b)	--	(219)
Total debt	5,483	4,230
Less current portion	--	(2,098)
Total long term debt	$ --	$ 2,132

(a) In January 2010, the Company entered into an unsecured convertible promissory note with SOAdesk for $700,000 with an annual interest rate of 5%. The note was originally scheduled to mature on March 31, 2010 but was subsequently amended and through a series of amendments, the maturity date was extended to June 30, 2015. In June 2015, the note was amended and the maturity date was extended to June 30, 2017. In July 2015, the Company paid $25,000 toward the principal amount of the note. At December 31, 2015, the Company was indebted to SOAdesk in the amount of $675,000 in principal and $208,000 in interest. At December 31, 2016, the Company was indebted to SOAdesk in the amount of $675,000 in principal and $242,000 in interest.

In June 2015, the note was amended so that the note is convertible into shares of the Company's common stock at the rate of one share for every $0.15 of principal and interest due under the note from the original conversion to shares of Series B Convertible Preferred Stock at the rate of one share per every $150 of principal and interest due under the note. The note was further amended that should the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA") exceed $1,000,000 in either 12 month period beginning June 30, 2015 and June 30, 2016, respectively, then the Company shall repay, in cash, a portion of the outstanding principal of the note at the rate of $0.50 for each $1.00 that exceeds the EBITDA threshold. The note is convertible at the holder's option at any time or at maturity.

As part of a prior acquisition, the Company was obligated to certain earn-out obligation payments of up to $2,410,000 over an 18 month period from January 15, 2010 through July 31, 2011, based upon the achievement of certain revenue performance targets. The earn-out was payable fifty percent in cash and fifty percent in common stock of the Company at the rate of one share for every $0.15 earn-out payable. The Company had recorded $842,606 in its accounts payable as of December 31, 2014 due to a portion of earn-out obligations being met. In June 2015, the Company entered into a promissory note with SOAdesk for fifty percent of the earn-out payable ($421,303) to SOAdesk. The maturity date of the note is December 31, 2015 with an annual interest rate of 10%. In December 2015, the maturity date was extended to December 31, 2016. In December 2016, the maturity date was extended to December 31, 2017. Included in the amendment were two milestone payments of $62,500 each to be applied to interest and then principal and payable on June 1, 2017 and December 1, 2017, respectively. The Company's Chairman has agreed to personally guarantee these, and only these, milestone payments. At December 31, 2015, the Company was indebted to SOAdesk for $421,303 in principal and approximately $21,000 in interest. At December 31, 2016, the Company was indebted to SOAdesk for $421,303 in principal and approximately $63,000 in interest. The Company also entered into a convertible promissory note with SOAdesk for fifty percent of the earn-out payable ($421,303) with a maturity date of June 30, 2017 that was non-interest bearing. The note is only convertible into shares of the Company's common stock at the rate of one share for every $0.15 of principal due under the note. The note is convertible at the holder's option at any time or at maturity. At December 31, 2015 and 2016 the Company was indebted to SOAdesk for $421,303 in principal.

(b) From time to time during 2012 through 2015, the Company entered into several short-term notes payable with John L. (Launny) Steffens, the Chairman of the Board of Directors, for various working capital needs. The notes bear interest at 12% per year, are unsecured and mature on June 30, 2015. At December 31, 2014, the Company was indebted to Mr. Steffens in the approximate amount of $6,691,000 of principal and $1,139,000 in interest. On April 8, 2015, the Company entered into an Exchange Agreement with Mr. Steffens to convert an aggregate of $6,950,514 of principal amount of debt into 69,505,140 shares of the Company's common stock at a conversion rate of $0.10 per share.

Subsequent to the exchange agreement, the Company entered into several short term notes payable with Mr. Steffens for various working capital needs in fiscal 2015 and 2016. The notes vary from non-interest bearing to interest rates of 12% with a maturity date of December 31, 2015. The Company is obligated to repay the notes with the collection of any accounts receivables. The Company had repaid $170,000 in principal as of December 31, 2015. In December 2015, the maturity dates were extended to December 31, 2016. At December 31, 2015, the Company was indebted to Mr. Steffens in the approximate amount of $1,845,000 of principal and $1,362,000 of interest. At December 31, 2015, the Company recorded $275,000 of unamortized discount on debt on the non-interest bearing notes with Mr. Steffens. Imputed interest was calculated based on a 12% interest rate based on historical notes with Mr. Steffens and comparative non-related party loans with the Company. The Company has recorded $56,000 of amortization of the debt discount in interest expense through December 31, 2015. In 2016, the Company recorded an additional $50,000 of unamortized discount on debt on non-interest bearing debt issued in fiscal 2016. Imputed interest was calculated based on a 12% interest rate based on historical notes with Mr. Steffens and comparative non-related party loans with the Company. The Company has recorded $266,000 of amortization of the debt discount in interest expense through December 31, 2016. In December 2016, the maturity dates were extended to June 30, 2017. Additionally notes totaling $2,269,000 that were previously non-interest bearing were amended to an annual interest rate of 10%. At December 31, 2016, the Company was indebted to Mr. Steffens in the approximate amount of $2,879,000 of principal and $1,380,000 of interest.

(c) The Company has issued a series of short-term unsecured promissory notes with private lenders, which provide for short term borrowings. The notes in the aggregate principal amount of $50,000 of principal and $53,000 of interest and $50,000 of principal and $64,000 of interest, respectively, as of December 31, 2015 and December 31, 2016, bear interest between 10% and 36% per annum.

In March 2014, the Company reclassified to short-term debt its unsecured convertible promissory note with SOAdesk that was entered into as part of the Asset Purchase Agreement with SOAdesk for $1,000,000 with an annual interest rate of 5% and a maturity date of January 14, 2015. In March 2012, SOAdesk elected to convert $300,000 of the outstanding note balance into 2,000,000 shares of the Company's Common Stock. Through a series of amendments, the note was amended to extend the maturity date until June 30, 2015. In June 2015, the note was amended to extend the maturity date until June 30, 2017. The note was further amended that should the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA") exceed $1,000,000 in either 12 month period beginning June 30, 2015 and June 30, 2016, respectively, then the Company shall repay, in cash, a portion of the outstanding principal of the note at the rate of $0.50 for each $1.00 that exceeds the EBITDA threshold. At December 31, 2015, the Company was indebted to SOAdesk in the amount of $700,000 in principal and $242,000 in interest. At December 31, 2016, the Company was indebted to SOAdesk in the amount of $700,000 in principal and $277,000 in interest. The note is only convertible into shares of the Company's common stock at the rate of one share for every $0.15 of principal and interest due under the note.

In June 2014, the Company reclassified to short-term debt its unsecured promissory note with a private lender that was originally entered into in March 2012 for $336,000 at an interest rate of 12% and a maturity date of March 31, 2013. In March 2013, the maturity date of the note was extended to June 30, 2015. In June 2015, the maturity date of the note was extended to June 30, 2017, a repayment schedule of quarterly principal and interest payments of $12,000 beginning on September 30, 2015 and two milestone payments of $125,000 on February 28, 2016 and 2017, respectively were added. In February 2016, the note was amended that the first milestone payment due on February 29, 2016, was now payable quarterly beginning February 29, 2016 through November 29, 2016. At December 31, 2015, the Company was indebted to this private lender in the amount of $336,000 in principal and $134,000 in interest. At December 31, 2016, the Company was indebted to this private lender in the amount of $336,000 in principal and $137,000 in interest.

NOTE 6. INCOME TAXES

The Company follows the provisions of ASC Topic 740, "Income Taxes," and recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority. The Company applies ASC Topic 740 to all tax positions for which the statute of limitations remains open.

The Company has identified its federal tax return and its state tax return in North Carolina as “major” tax jurisdictions. Based on the Company’s evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company’s consolidated financial statements. The evaluation was performed for the tax years 2014 through 2016, and may be subject to audits for amounts related to net operating loss carryforwards generated in periods prior to December 31, 2013. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. The tax returns for the prior three years are generally subject to review by federal and state taxing authorities.

The Company’s policy for recording interest and penalties associated with audits is to record such items as a component of income tax expense. There were no amounts accrued for penalties and interest as of or during the period for the tax years 2016 and 2015. The Company does not expect its uncertain tax position to change during the next twelve months. Management is currently unaware of any issues under review that could result in significant payment, accruals or material deviations from its position.

A reconciliation of expected income tax at the statutory federal rate with the actual income tax provision is as follows for the years ended December 31 (in thousands):

	2016	2015
Expected income tax benefit at statutory rate (34%)	$ (1,329)	$ (967)
State taxes, net of federal tax benefit	(160)	(170)
Effect of change in valuation allowance	(1,249)	(5,860)
Non-deductible expenses	1	3
Change in state tax rate	2,737	
Expiration of net operating loss deductions	--	6,994
Total	$ --	$ --

Significant components of the net deferred tax asset at December 31 were as follows:

	2016	2015
Accrued expenses, non-tax deductible	$ 15	$ 7
Deferred revenue	281	242
Contingent payments	(788)	(831)
Stock compensation expense	593	621
Loss carryforwards	54,802	56,583
Depreciation and amortization	1,436	966
	56,339	57,588
Less: valuation allowance	(56,339)	(57,588)
	$ --	$ --

At December 31, 2016, the Company had net operating loss carryforwards of approximately $143,842,000, which may be applied against future taxable income. These carryforwards will expire at various times between 2020 and 2036. Net operating loss carryforwards include tax deductions for the disqualifying dispositions of incentive stock options. When the Company utilizes the net operating losses related to these deductions, the tax benefit will be reflected in additional paid-in capital and not as a reduction of tax expense. The total amount of these deductions included in the net operating loss carryforwards is $21,177,000.

The Company provided a full valuation allowance on the total amount of its deferred tax assets at December 31, 2016 and 2015 since management does not believe that it is more likely than not that these assets will be realized.

In accordance with Section 382 of the Internal Revenue Code of 1986, as amended, a change in equity ownership of greater than 50% of the Company within a three-year period can result in an annual limitation on the Company's ability to utilize its NOL carryforwards that were created during tax periods prior to the change in ownership. In December 2014, the Company completed a Section 382 study which concluded that an ownership change occurred for the three year testing period ended March 2000 but that no other ownership change occurred through December 2014 leaving our NOL carryforwards balance at December 31, 2014 at approximately $136,914,000. The study further concluded that the NOL limitation would not affect the three years in question as the total NOL's for those years is less than the calculated limitation. Subsequent analysis after the study determined that the debt conversion by Mr. Steffens and equity financing of $1 million in fiscal 2015 would not trigger a Section 382 limitation.

NOTE 7. STOCKHOLDERS' EQUITY

At the Company's Annual Meeting held on September 11, 2015, the shareholders approved the following proposals:

1. An amendment to the Company's Amended and Restated Certificate of Incorporation ("Charter") to increase the number of authorized shares of common stock, par value $0.001 per share, from 215,000,000 to 600,000,000;
2. An amendment to the Company's Charter to allow stockholders to be able to act by written consent only while Privet Fund LP and its affiliates (a "Privet Stockholder") own an aggregate of at least 30% of the Company's outstanding voting stock;
3. An amendment to the Company's Charter to provide that only the Board of Directors may call a special meeting of stockholders of the Company;
4. An amendment to the Company's Charter to renounce the Company's expectancy regarding certain corporate opportunities presented to a Privet Stockholder;
5. An amendment to the Company's Charter to not be governed by the provisions of Section 203 of the Delaware General Corporation Law;
6. An amendment to the Company's Charter establishing the courts located within the State of Delaware as the exclusive forum for the adjudication of certain legal actions by the stockholders; and
7. An amendment to the Company's Charter to authorize 10,000,000 shares of "blank check" preferred stock, par value $0.001 per share.

Also at the Annual Meeting, the holders of the Company's Series A-1 Convertible Preferred Stock approved an amendment to Article IV (Conversion) of the Series A-1 Convertible Preferred Stock Certificate of Designations to the effect that the Series A-1 Preferred Stock automatically converted into common stock as a result of the Company consummation of an equity financing of at least $1,000,000 on July 15, 2015; and the holders of the Company's Series B Convertible Preferred Stock approved an amendment to Section 6 (Automatic Conversion) of the Series B Convertible Preferred Stock Certificate of Designations to the effect that the Series B Preferred Stock automatically converted into common stock as a result of the Company consummation of an equity financing of at least $1,000,000 on July 15, 2015 (see below).

On July 15, 2015, the Company entered into a Stock and Warrant Purchase Agreement (the "Purchase Agreement") with investors named therein, including Privet Fund LP ("Privet"), five directors of the Company, including John L. Steffens, Donald Peppers, Bruce D. Miller, Mark Landis, and Thomas Avery, and three other persons (collectively the nine investors are referred to as the "Purchasers"), pursuant to which the Purchasers severally purchased, in the aggregate, 25,000,000 shares of the Company's common stock and warrants to purchase up to an aggregate of 205,277,778 shares of the Company's common stock ("Warrants") for an aggregate consideration of $1,000,000.

The Warrants are exercisable for a period of three years beginning at any time after 60 days of issuance. The exercise prices of the Warrants are as follows: (i) Warrants to purchase up to 87,500,000 shares of the Company's common stock are exercisable at a price of $0.04 per share ("Tranche I"); (ii) Warrants to purchase up to 77,777,778 shares of the Company's common stock are exercisable at a price of $0.045 per share ("Tranche II"); and (iii) Warrants to purchase up to 40,000,000 shares of the Company's common stock are exercisable at a price of $0.05 per share ("Tranche III"). The Warrants are exercisable only for cash, as the exercise price paid is intended to increase the funding of the Company. All the exercise prices and numbers of shares are subject to customary anti-dilution provisions. The Warrants contain an exercise limitation provision that prohibits exercise of the Warrants to the extent that the exercise would result in the issuance of shares of the Company's common stock that would cause either (a) the Company to be deemed an investment company under the Investment Company Act of 1940, as amended, or (b) an ownership change within the meaning of Internal Revenue Code Section 382 (and applicable U.S. Treasury regulations pursuant to such section) limiting the use of the Company's net operating losses, carryforwards and other tax attributes. The Company is obligated to reserve a sufficient number of shares of the Company's common stock to enable the exercise of the Warrants.

The use of proceeds from this transaction are for general corporate purposes, as approved from time to time by the Board of Directors (the "Board"), which approval must include approval by a majority of the directors that have been designated by Privet.

In connection with the execution of the Purchase Agreement, the Company entered into an Investor Rights Agreement with Privet and Mr. Steffens (the "Investors"), granting the Investors the right to require the Company to file with the Securities and Exchange Commission up to four requested registration statements to register for resale the Investors' shares of common stock purchased under the Purchase Agreement and purchased upon exercise of any of the Warrants (the "Registrable Securities"). The Investors also are granted unlimited "piggy-back" registration rights with respect to the Registrable Securities. The obligation to register the Registrable Securities continues until those securities have been sold or transferred by the holders of the registration rights or may be sold without limitation under Rule 144 or otherwise may be sold without restriction.

As a result of the transaction, (i) Privet became the record holder of approximately 10.1% of the outstanding and issued shares of common stock, and has the right to purchase under the Warrants an additional 149,852,778 shares of common stock which would correspondingly increase its percentage of ownership and it has the right to appoint directors, and (ii) Mr. Steffens decreased his current 65.5% ownership of the common stock of the Company to 59.3%, while retaining his current control position in the common stock. Together Privet and Mr. Steffens, excluding the exercise of the Warrants, have a majority of the voting control of the Company.

Preferred Stock:

In April 2010, the Company issued to a certain accredited investor 1,333 shares of Series B Convertible Preferred Stock at $150 per share for a total of $200,000. The Series B Convertible Preferred Stock bore an annual dividend of 8%. The Series B stock would have converted into common stock at a conversion rate of $0.15 per share. Additionally, the Series B stock provided 333,333 warrants to purchase common stock of the Company at a strike price of $0.25 per share. The warrants expired in April 2015. In January 2010, the Company issued to certain accredited investors 9,067 shares of Series B Convertible Preferred Stock at $150 per share for a total of $1,360,000, including $500,000 in cash, the cancellation of $710,000 of existing indebtedness. The Series B Convertible Preferred Stock bore an annual dividend of 8%. The Series B would have converted into common stock at a conversion rate of $0.15 per share. Additionally, the Series B stock investors were issued 2,266,667 warrants to purchase common stock of the Company at a strike price of $0.25 per share. The warrants expired in January 2015. All shares of the Company's Series B Preferred Stock were automatically converted into shares of the common stock as a result of an amendment to the Company's Series B Convertible Preferred Stock Certificate of Designations approved by the holders of the Series B preferred stock at Company's Annual Meeting held on September 11, 2015.

Common Stock:

On April 8, 2015, the Company entered into agreement with John L. Steffens, the Chairman of the Board of Directors, to convert $6,950,514 of principal amount of debt into 69,505,140 share of the Company's common stock. (See Note 5) The Company accounted for the transaction pursuant to Topic ASC 470-50, Modification and Extinguishment of Debt. Due to the fact that the transaction was with Mr. Steffens, the Company's Chairman of the Board, the Company determined that this was not an arm's length agreement and as such has recorded the entire transaction through additional paid in capital. We had no such transactions in 2016.

Stock Grants:

None.

Stock Options:

In 2007, the Board of Directors approved the 2007 Cicero Employee Stock Option Plan which permits the issuance of incentive and nonqualified stock options, stock appreciation rights, performance shares, and restricted and unrestricted stock to employees, officers, directors, consultants, and advisors. The aggregate number of shares of common stock which may be issued under this Plan shall not exceed 4,500,000 shares upon the exercise of awards and provide that the term of each award be determined by the Board of Directors. The Company also has a stock incentive plan for outside directors and the Company has set aside 1,200 shares of common stock for issuance under this plan.

Under the terms of the Plans, the exercise price of the stock options may not be less than the fair market value of the stock on the date of the award and the options are exercisable for a period not to exceed ten years from date of grant. Stock appreciation rights entitle the recipients to receive the excess of the fair market value of the Company's stock on the exercise date, as determined by the Board of Directors, over the fair market value on the date of grant. Performance shares entitle recipients to acquire Company stock upon the attainment of specific performance goals set by the Board of Directors. Restricted stock entitles recipients to acquire Company stock subject to the right of the Company to repurchase the shares in the event conditions specified by the Board are not satisfied prior to the end of the restriction period. The Board may also grant unrestricted stock to participants at a cost not less than 85% of fair market value on the date of sale. Options granted vest at varying periods up to five years and expire in ten years.

Activity for stock options issued under these plans for the years ending December 31, 2016 and 2015 was as follows:

	Number of Options	Option Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance at December 31, 2014	3,150,110	0.02-0.51	$ 0.24	
Granted	525,000	0.05	$ 0.05	
Forfeited	(10,000)	0.09	$ 0.09	
Expired	(8,000)	0.51	$ 0.51	
Balance at December 31, 2015	3,657,110	0.03-0.51	$ 0.21	
Granted	--	--	--	
Forfeited	(770,898)	0.02-0.51	$ 0.11	
Expired	(54,000)	0.02-0.51	$ 0.11	
Balance at December 31, 2016	2,832,212	0.05-0.51	$ 0.24	$ 0.00

Activity for non-vested stock options under these plans for the fiscal year ending December 31, 2016 and 2015 was as follows:

	Number of Options	Option Price Per Share	Weighted Average Exercise Price
Balance at December 31, 2014	18,333	0.02-0.05	$ 0.04
Granted	525,000	0.05	$ 0.05
Vested	(188,332)	0.05	$ 0.05
Forfeited	--	---	--
Balance at December 31, 2015	355,001	0.05	$ 0.05
Granted	--	--	--
Vested	(104,702)	0.05	$ 0.05
Forfeited	(145,599)	0.05	$ 0.05
Balance at December 31, 2016	104,700	0.05	$ 0.05

There were no options granted in 2016 and 525,000 options granted during 2015. The weighted average grant date fair value of options issued during the years ended December 31, 2015 was equal to $0.05. There were no option grants issued below fair market value during 2015.

At December 31, 2016, there was unrecognized compensation cost of $2,800 related to stock options which is expected to be recognized over a weighted-average amortization period of six months.

At December 31, 2016 and 2015, options to purchase 2,752,512 and 3,302,109 shares of common stock were exercisable, respectively, pursuant to the plans at prices ranging from $0.05 to $0.51 . The following table summarizes information about stock options outstanding at December 31, 2016:

Exercise Price	Number Outstanding	Remaining Contractual Life for Options Outstanding	Number Exercisable	Weighted Average Exercise Price
$ 0.05-0.06	479,102	7.3	374,402	$ 0.05
0.07-0.08	500,000	4.6	500,000	0.07
0.09-0.37	787,750	3.4	787,750	0.10
0.38-0.51	1,065,360	0.7	1,065,360	0.51
	2,832,212	3.2	2,727,512	$ 0.25

Preferred Stock:

As of July 15, 2015, all preferred shares for Series A-1 and Series B converted to common stock.

Series A-1

The Series A-1 preferred stock provides rights and preferences set forth in the Certificate of Designations filed with the Secretary of State of the State of Delaware. The Series A-1 preferred stock was convertible at any time at the option of the holder into an initial conversion ratio of 1,000 shares of common stock for each share of Series A-1 preferred stock. The initial conversion ratio shall be adjusted in the event of any stock splits, stock dividends and other recapitalizations. The Series A-1 preferred stock was also convertible on an automatic basis in the event that (i) the Company closes on an additional $5,000,000 equity financing from strategic or institutional investors, or (ii) the Company has four consecutive quarters of positive cash flow as reflected on the Company's consolidated financial statements prepared in accordance with generally accepted accounting principles (GAAP) and filed with the Securities Exchange Commission. The Series A-1 preferred stock are entitled to receive equivalent dividends on an as-converted basis whenever the Company declares a dividend on its common stock, other than dividends payable in shares of common stock. The holders of the Series A-1 preferred stock are entitled to a liquidation preference of $500 per share of Series A-1 preferred stock upon the liquidation of the Company. The Series A-1 preferred stock are not redeemable.

The Series A-1 preferred stock provides the following voting rights. Each share of Series A-1 preferred stock represents that number of votes equal to the number of shares of common stock issuable upon conversion of a share of Series A-1 preferred stock. The holders of Series A-1 preferred stock, the series B preferred stock (see below) and the holders of common stock would vote together as a class on all matters except: (i) regarding the election of the Board of Directors of the Company (as set forth below); (ii) as required by law; or (iii) regarding certain corporate actions to be taken by the Company (as set forth below).

The approval of at least two-thirds of the holders of Series A-1 preferred stock voting together as a class, would be required in order for the Company to: (i) merge or sell all or substantially all of its assets or to recapitalize or reorganize; (ii) authorize the issuance of any equity security having any right, preference or priority superior to or on parity with the Series A-1 preferred stock; (iii) redeem, repurchase or acquire indirectly or directly any of its equity securities, or to pay any dividends on the Company's equity securities; (iv) amend or repeal any provisions of its certificate of incorporation or bylaws that would adversely affect the rights, preferences or privileges of the Series A-1 preferred stock; (v) effectuate a significant change in the principal business of the Company as conducted at the effective time of the Recapitalization; (vi) make any loan or advance to any entity other than in the ordinary course of business unless such entity is wholly owned by the Company; (vii) make any loan or advance to any person, including any employees or directors of the Company or any subsidiary, except in the ordinary course of business or pursuant to an approved employee stock or option plan; and (viii) guarantee, directly or indirectly any indebtedness or obligations, except for trade accounts of any subsidiary arising in the ordinary course of business. In addition, the unanimous vote of the Board of Directors is required for any liquidation, dissolution, recapitalization or reorganization of the Company. The voting rights of the holders of Series A-1 preferred stock set forth in this paragraph shall be terminated immediately upon the closing by the Company of at least an additional $5,000,000 equity financing from strategic or institutional investors.

In addition to the voting rights described above, the holders of a majority of the shares of Series A-1 preferred stock are entitled to appoint two observers to the Company's Board of Directors who would be entitled to receive all information received by members of the Board of Directors, and would attend and participate without a vote at all meetings of the Company's Board of Directors and any committees thereof. At the option of a majority of the holders of Series A-1 preferred stock, such holders may elect to temporarily or permanently exchange their board observer rights for two seats on the Company's Board of Directors, each having all voting and other rights attendant to any member of the Company's Board of Directors. As part of the Recapitalization, the right of the holders of Series A-1 preferred stock to elect a majority of the voting members of the Company's Board of Directors shall be terminated.

Series B

The Series B Preferred Stock ranks senior to the common stock and on parity with the Company's outstanding Series A-1 Preferred Stock. As required by the Certificate of Designations applicable to the Series A-1 Preferred Stock, the Company obtained the consent of a holder representing in excess of two-thirds of the outstanding shares of Series A-1 Preferred Stock to authorize and issue the shares of Series B Preferred Stock.

Dividends would accrue on each share of Series B Preferred Stock at the rate per annum of eight percent (8%). Dividends would accrue from the date on which a share of Series B Preferred Stock was issued by the Company until paid, whether or not declared, and shall be cumulative; *provided*, *however*, that except as set forth in the Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock (the "Series B Certificate"), such dividends will be payable only when, as, and if declared by the Board of Directors, and the Company will be under no obligation to pay such dividends.

Each share of Series B Preferred Stock is convertible, at the option of the holder, into that number of shares of common stock equal to $150.00 (the "Series B Original Issue Price") divided by the conversion price of the Series B Preferred Stock then in effect, which is initially $0.15, subject to adjustment under certain circumstances as set forth in the Series B Certificate.

In the event of certain specified liquidation events, the holders of Series B Preferred Stock would be entitled to receive an amount per share equal to the Series B Original Issue Price plus any dividends accrued or declared but unpaid thereon before the payment of any amount to the holders of common stock and other junior securities.

The holders of Series B Preferred Stock would be entitled to vote, on an as-converted basis, on all matters submitted to a vote of the stockholders of the Company, and the holders of Series B Preferred Stock, Series A-1 Preferred Stock and common stock will vote together as a single class. In addition, until such time as the Company consummates at least an additional $5,000,000 equity financing from institutional or strategic investors, the approval of the holders of at least 2/3 of the outstanding shares of the Series B Preferred Stock voting together separately as a class will be required for the Company to take certain specified actions set forth in the Series B Certificate.

Stock Warrants:

The Company values warrants based on the Black-Scholes pricing model. In accordance with ASC 815, these warrants are classified as equity. The warrants were issued in conjunction with certain promissory notes and the private investment in the Company's shares. At December 31, 2016, there were 207,859,113 exercisable warrants outstanding at an exercise price between $0.04 and $0.20 per share.

	Number of Warrants	Warrant Price Per Share	Weighted Average Exercise Price
Balance at December 31, 2014	5,281,333	$ 0.08-$0.25	$ 0.22
Issued	205,277,780	$ 0.04-$0.05	$ 0.05
Exercised	--	--	--
Forfeited	(2,600,000)	$ 0.25	$ 0.25
Balance at December 31, 2015	207,959,113	$ 0.04-$0.20	$ 0.05
Issued	--	--	--
Exercised	--	--	--
Forfeited	(100,000)	$ 0.08	$ 0.08
Balance at December 31, 2016	207,859,113	$ 0.04-$0.20	$ 0.05

NOTE 8. EMPLOYEE BENEFIT PLANS

The Company sponsors one defined contribution plan for its employees - the Cicero Inc. 401(K) Plan. Under the terms of the Plan, the Company, at its discretion, provides a 50% matching contribution up to 6% of an employee's salary. Participants must be eligible and employed at December 31 of each calendar year to be eligible for employer matching contributions. The Company opted not to make any matching contributions for 2016 and 2015.

NOTE 9. SIGNIFICANT CUSTOMERS AND CONCENTRATION OF CREDIT RISK

In 2016, two customers accounted for 40% and 33%, respectively, of operating revenues and two customers accounted for 78% and 15% of accounts receivable at December 31, 2016. In 2015, two customers accounted for 51% and 16%, respectively, of operating revenues and one customer accounted for 98% of accounts receivable at December 31, 2015.

In 2016, one vendor accounted for 65% of accounts payable at December 31, 2016. In 2015, two vendors accounted for 53% and 12%, respectively, of accounts payable at December 31, 2015.

NOTE 10. RELATED PARTY INFORMATION

From time to time during 2012 through 2016, the Company entered into several short-term notes payable with John L. (Launny) Steffens, the Chairman of the Board of Directors, for various working capital needs. The notes bear interest at 12% per year and are unsecured. In March 2014, Mr. Steffens agreed to extend the maturity date of all outstanding short-term notes until June 30, 2015. At December 31, 2014, the Company was indebted to Mr. Steffens in the approximate amount of $6,691,000 of principal and $1,139,000 in interest. In April 2015, the Company entered into agreement with Mr. Steffens to convert $6,950,514 of principal amount of debt into 69,505,140 share of the Company's common stock. Subsequent to the exchange agreement, the Company entered into several short term notes payable with Mr. Steffens for various working capital needs. The notes vary from non-interest bearing to interest rate of 12% with a maturity date of December 31, 2015. The Company is obligated to repay the notes with the collection of any accounts receivable. The Company had repaid $170,000 in principal as of December 31, 2015. In December 2015, the maturity dates were extended to December 31, 2016. At December 31, 2015, the Company was indebted to Mr. Steffens in the approximate amount of $1,845,000 of principal and $1,362,000 of interest. At December 31, 2016, the maturity dates were extended to June 30, 2017. Additionally all notes that were non-interest bearing were amended to an annual interest rate of 10%. At December 31, 2016, the Company was indebted to Mr. Steffens in the approximate amount of $2,879,000 of principal and $1,380,000 of interest.

In June 2015, the Company entered into a promissory note with SOAdesk for fifty percent of the earn-out payable ($421,303) to SOAdesk. The maturity date of the note is December 31, 2015 with an annual interest rate of 10%. In December 2015, the maturity date was extended to December 31, 2016. In December 2016, the maturity date was extended to December 31, 2017. Included in this last amendment were two milestone payments of $62,500 each to be paid to interest first and then principal and payable on June 1, 2017 and December 1, 2017, respectively. The Company's Chairman has agreed to personally guarantee these, and only these, milestone payments.

Antony Castagno, the Company's Chief Technology Officer, is part-owner of SOAdesk LLC, which was acquired by the Company in 2010. In January 2016, the Company entered into a short term note payable for $3,500 with Mr. Castagno for various working capital needs. The note bears interest of 10% and was unsecured. The note and interest was repaid in full in February 2016.

NOTE 11. COMMITMENTS AND EMPLOYMENT AGREEMENTS

In June 2014, the Company entered into an amendment with its landlord and renewed its lease through 2018. In October 2016, the Company entered into an amendment reducing the square footage being leased for the remaining term of the lease. Future minimum lease commitments on operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2016 consisted of only one lease as follows (in thousands):

	Lease Commitments
2017	$ 64
2018	55
	$ 119

Rent expense was $91,000 and $93,000 for each years ended December 31, 2016 and 2015, respectively.

Under the employment agreement between the Company and Mr. Broderick effective January 1, 2017, we agreed to pay Mr. Broderick an annual base salary of $175,000 and performance bonuses in cash of up to $275,000 per annum based upon exceeding certain revenue goals and operating metrics, as determined by the Board of Directors, at its discretion. Upon termination of Mr. Broderick's employment by the Company without cause, we agreed to pay Mr. Broderick a lump sum payment of one year of Mr. Broderick's then current base salary within 30 days of termination and any unpaid deferred salaries and bonuses. In the event a substantial change in Mr. Broderick's job duties occurs, there is a decrease in or failure to provide the compensation or vested benefits under the employment agreement or there is a change in control of the Company, we agreed to pay Mr. Broderick a lump sum payment of one year of Mr. Broderick's then current base salary within thirty (30) days of termination. Additionally, as part of his employment agreement for fiscal 2012, Mr. Broderick will be entitled to receive 1,500,000 shares of the Company's common stock in the event of the termination, with or without cause, of his employment by the Company or his resignation from the Company with or without cause or in the event of a change of control (as that term is defined in the Employment Agreement) of the Company. Mr. Broderick will have thirty (30) days from the date written notice is given about either a change in his duties or the announcement and closing of a transaction resulting in a change in control of the Company to resign and execute his rights under this agreement. If Mr. Broderick's employment is terminated for any reason, Mr. Broderick has agreed that, for two (2) years after such termination, he will not directly or indirectly solicit or divert business from us or assist any business in attempting to do so or solicit or hire any person who was our employee during the term of his employment agreement or assist any business in attempting to do so.

Under the employment agreement between the Company and Mr. Castagno effective January 1, 2017, we agreed to pay Mr. Castagno an annual base salary of $150,000. Upon termination of Mr. Castagno's employment by the Company without cause, we agreed to pay Mr. Castagno an amount of $75,000 which is equivalent to six (6) months of Mr. Castagno's then current base salary in equal semi-monthly installments over the six (6) month period following the termination. If Mr. Castagno's employment is terminated for any reason, Mr. Castagno has agreed that, for two (2) years after such termination, he will not directly or indirectly solicit or divert business from us or assist any business in attempting to do so or solicit or hire any person who was our employee during the term of his employment agreement or assist any business in attempting to do so. During 2013 the Company amended Mr. Castagno's employment agreement to provide that Mr. Castagno could engage in consulting services on behalf of the Company and would be compensated for any revenues in excess of his base salary as a bonus.

NOTE 12. CONTINGENCIES

The Company, from time to time, is involved in legal matters arising in the ordinary course of its business including matters involving proprietary technology. While management believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is or could become involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

Under the indemnification clause of the Company's standard reseller agreements and software license agreements, the Company agrees to defend the reseller/licensee against third-party claims asserting infringement by the Company's products of certain intellectual property rights, which may include patents, copyrights, trademarks or trade secrets, and to pay any judgments entered on such claims against the reseller/licensee. There were no claims against the Company as of December 31, 2016 and 2015.

NOTE 13. SUBSEQUENT EVENTS

In first quarter of fiscal 2017, the Company entered into various notes payable totaling $460,000 with Mr. Steffens. The notes bear interest at 10% annually. They are unsecured and mature on June 30, 2017. Subsequent events have been evaluated through March 31, 2017.

Sixth Amendment to Lease

This Sixth Amendment to Lease ("Sixth Amendment") is made and entered into effective as of the __ day of October, 2016 (the "Effective Date"), between REGENCY PARK CORPORATION, a North Carolina corporation having its principal place of business in Cary, North Carolina ("Landlord") and CICERO, INC., a Delaware corporation, successor by merger to the interests of Level 8 Systems Inc., a Delaware corporation (hereinafter referred to as the "Original Tenant") having its principal place of business in Princeton, New Jersey (Cicero, Inc. being hereinafter referred to as the "Tenant").

WITNESSETH:

WHEREAS, Landlord and Original Tenant entered into a written Lease Agreement dated November 7, 2003; as amended by Addendum #1 dated July 7, 2005; as amended by Addendum #2 dated January 31, 2007; as amended by Addendum #3 dated August 16, 2007, as amended by Landlord letter dated February 1, 2008; as amended by Addendum #4 dated July 21, 2010; and as amended by Addendum #5 dated June 11, 2014 ("the Lease"), whereby the Landlord leases Premises to the Tenant in 8000 Regency Parkway, Suite 542, Cary, North Carolina (herein called the "Building"):

WHEREAS, Tenant desires, and Landlord agrees, to reduce the rentable square footage of the Tenant's Premises from 5,038 rentable square feet (the "Original Premises") to 3,080 rentable square feet as shown in **Exhibit A** (the "New Premises") effective November 1, 2016, all on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, and such other good and valuable consideration, the sufficiency of which is hereby acknowledged, it is hereby mutually agreed as follows:

1. Defined Terms. All capitalized terms not expressly defined in this Sixth Amendment shall have the meaning ascribed to them in the Lease.

2. Annual Rent – Remainder of Term. Annual Rent due under Article 2.01 shall be modified as follows:

    a. **From November 1, 2016 through July 31, 2017**: Sixty-Three Thousand Nine Hundred Ten and No/100 Dollars ($63,910.00) ($5,325.83/mo.)

    b. **From August 1, 2017 through July 31, 2018**: Sixty-Five Thousand Two Hundred Ninety-Six and No/100 Dollars ($65,296.00) ($5,441.33/mo.)

    c. **From August 1, 2018 through October 31, 2018**: Sixty-Six Thousand Two Hundred Twenty and No/100 Dollars ($66,220.00) ($5,518.33/mo.)

3. Premises. Effective as of November 1, 2016, the New Premises constitutes three thousand eighty (3,080) rentable square feet located within the Building as shown on **Exhibit A**. Tenant shall vacate the surrendered portion of the Original Premises, surrender it in the same condition otherwise required by the Lease at the end of the Lease Term and shall remove all items of personal property (including equipment, furniture and trade fixtures) no later than November 30, 2016.

4. Tenant's Proportionate Share. Effective as of November 1, 2016, Tenant's proportionate share percentage with respect to the Building, including without limitation, with respect to determining Tenant's Estimated Share, Tenant's Actual Share, and Tenant's Tax Share shall be 2.13%.

5. Parking. Effective as of November 1, 2016, Section 10.0 of the Lease is amended to provide that the Tenant is entitled to 2.13% of the parking spaces for this Building which after the Effective Date is 12.25 spaces.

6. Brokerage: Tenant represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction. Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to this Sixth Amendment. The provisions of this section shall survive the termination of the Lease.

7. Tenant's Acknowledgement. As of the Effective Date, Tenant hereby acknowledges: (a) Landlord is not in default under the Lease; (b) Landlord has performed all of its obligations under the Lease; (c) no event has occurred which, with the passage of time or the giving of notice or both, would constitute an event of default by Landlord under the Lease; and (d) Tenant has no current defenses or claims against Landlord or rights of offset against any rents payable to Landlord under the Lease.

8. Notices. Section 18.0 is hereby amended to provide that notices to Landlord shall be copied to Landlord's attorney addressed to Morningstar Law Group, 630 Davis Drive, Suite 200, Morrisville, NC 27560, attention Michael J. Ovsievsky, or at such other place as the Landlord may from time to time designate by written notice to the Tenant.

9. Ratification of Lease. Except as expressly amended by this Sixth Amendment, the Lease shall remain in full force and effect in accordance with its original terms, and the Lease, as amended pursuant to this Sixth Amendment, is hereby ratified by Landlord and Tenant. In the event of inconsistencies between any term of this Sixth Amendment and any terms of the Lease, the term of this Sixth Amendment shall control.

10. Authority: Landlord and Tenant and the persons signing this Sixth Amendment on their behalf represent and warrant each to the other that they have full right and authority to execute and perform its obligations under the Lease as amended hereby, and that such persons are duly authorized to execute this Sixth Amendment on behalf of Landlord and Tenant without further consent or approval by anyone, including, but not limited to, any mortgagee. Landlord and Tenant shall deliver each to the other promptly upon request all documents reasonably requested by the other to evidence such authority.

11. Counterparts: This Sixth Amendment may be executed in multiple counterparts, which when taken together shall constitute a single instrument.

IN WITNESS WHEREOF, this Sixth Amendment has been duly executed by the parties hereto to be effective as of the Effective Date.

REGENCY PARK CORPORATION
Landlord

Corporate Seal

ATTEST:

Assistant Secretary

By: _____
Edward O. Woolner
President

CICERO, INC.
Tenant

Corporate Seal

~~ATTEST~~: WITNESS:

Title: HR Specialist

By: _____
John Broderick
Chief Executive and Chief Financial Officer

Subsidiaries (all are 100% owned)

Name	Jurisdiction
Level 8 Technologies, Inc.	Delaware
Cicero Strategic Investments LLC.	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-160581), filed on July 15, 2009, of Cicero Inc. and subsidiaries (the "Company") of our report dated March 31, 2017, with respect to the consolidated financial statements of the Company included in the Company's Annual Report on Form 10-K, as of and for the years ended December 31, 2016 and 2015, filed on March 31, 2017.

/s/ Cherry Bekaert LLP

Raleigh, North Carolina
March 31, 2017

Exhibit 31.1

CERTIFICATIONS

I, John P. Broderick, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cicero Inc.,

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2017

By: /s/ John P. Broderick
John P. Broderick
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, John P. Broderick, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cicero Inc.,

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2017

By: /s/ John P. Broderick
John P. Broderick
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Annual Report of Cicero Inc., formerly Level 8 Systems, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2016 as filed with the Security Exchange Commission on the date hereof (the "Report"), I, John P. Broderick, Chief Executive and Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of theSecurities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented in the Report.

By: /s/ John P. Broderick
John P. Broderick
Chief Executive and Financial Officer
(Principal Financial and Accounting Officer)
March 31, 2017