

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**CICERO INC**

**Form: 10-K**

**Date Filed: 2018-03-30**

Corporate Issuer CIK: 945384

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

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

☐ 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**  
(State of incorporation)

**11-2920559**  
(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 ☒

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 ☒

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 ☒ 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 ☒ 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. ☒

Indicate by check mark whether the registrant is a shell company. Yes ☐ No ☒

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 ☒

Aggregate market value of the outstanding shares of common stock held by non-affiliates of the Registrant as of June 30, 2017 was approximately \$1,850,431 based upon the closing price quoted on the Over The Counter Bulletin Board.

There were 207,913,541 shares of common stock outstanding as of March 22, 2018.

Documents Incorporated by Reference: None

**CICERO INC.**  
Annual Report on Form 10-K  
For the Fiscal Year Ended December 31, 2017

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## 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](http://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.

EG Solutions and UBS, Inc. each accounted for more than ten percent (10%) of our operating revenue in fiscal 2017. Merrill Lynch/Bank of America and UBS, Inc. each accounted for more than ten percent (10%) of our operating revenues in fiscal 2016.

## **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. The Company is adopting ASU 2014-09 Revenue from Contracts with Customers (Topic 606) as of January 1, 2018. Based on the evaluation the Company performed on its customer contracts, the adoption will not have a material impact on the Company's financial position, results of operations, cash flow, accounting policies, business processes, internal controls or disclosures.

### **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 \$1,071,000 and \$1,163,000 in 2017 and 2016, respectively.

Cicero Discovery, Cicero Insight, and Cicero Automation are products that exist in a rapidly changing technology environment and as such, 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. Pegasystems 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 Pegasystems, 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. 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, 2017, we employed 15 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](http://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](http://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 2003 through 2017. We incurred a net loss of \$3.9 million for 2016 and \$2.1 million for 2017. As of December 31, 2017, we had a working capital deficit of \$4.9 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 30, 2018 on our consolidated financial statements for the period ended December 31, 2017 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, 2017, the Company had a working capital deficiency of \$4.9 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 PegaSystems 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, 2017 and 2016.

| Quarter | 2017    |         | 2016    |         |
|---------|---------|---------|---------|---------|
|         | High    | Low     | High    | Low     |
| First   | \$ 0.01 | \$ 0.01 | \$ 0.04 | \$ 0.02 |
| Second  | \$ 0.01 | \$ 0.01 | \$ 0.03 | \$ 0.03 |
| Third   | \$ 0.01 | \$ 0.01 | \$ 0.03 | \$ 0.01 |
| Fourth  | \$ 0.01 | \$ 0.01 | \$ 0.01 | \$ 0.01 |

The closing price of the common stock on March 22, 2018 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, 2018, we had 227 registered stockholders of record.

#### Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2017, 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 to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securities remaining available under equity compensation plans (excluding securities reflected in the first column) |
|--------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by stockholders     | 1,577,750                                                              | \$ 0.08                                                | -0-                                                                                                                           |
| 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, |          |
|----------------------------------|--------------------------|----------|
|                                  | 2017                     | 2016     |
| Revenue:                         |                          |          |
| Software                         | 41.7%                    | 6.6%     |
| Maintenance                      | 39.5%                    | 70.7%    |
| Services                         | 18.9%                    | 22.6%    |
| Total                            | 100.0%                   | 100.0%   |
| Cost of revenue:                 |                          |          |
| Software                         | 0.5%                     | 0.0%     |
| Maintenance                      | 12.2%                    | 12.7%    |
| Services                         | 30.1%                    | 33.8%    |
| Total                            | 42.8%                    | 46.5%    |
| Gross margin                     | 57.2%                    | 53.5%    |
| Operating expenses:              |                          |          |
| Sales and marketing              | 35.7%                    | 41.2%    |
| Research and product development | 81.3%                    | 93.0%    |
| General and administrative       | 72.8%                    | 70.2%    |
| Goodwill impairment charge       | 0%                       | 132.5%   |
| Total                            | 189.7%                   | 336.9%   |
| Loss from operations             | (132.5)%                 | (283.4)% |
| Other income/(expense), net      | (27.9)%                  | (29.0)%  |
| Net loss                         | (160.4)%                 | (312.4)% |

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

|               | 2017 | 2016 |
|---------------|------|------|
| United States | 69%  | 96%  |
| Europe        | 31%  | 4%   |
|               | 100% | 100% |

### Years Ended December 31, 2017 and 2016

**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 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, 2017 increased 5.4% or \$67,000 from \$1,251,000 in 2016 to \$1,318,000 in 2017. The increase in revenues in 2017 is due primarily to the increase in software sales partially offset by a decrease in maintenance revenue and consulting revenue.

**Software Products.** Software products revenue for the year ended December 31, 2017 increased 561.4% or \$466,000 from \$83,000 in 2016 to \$549,000 in 2017. The increase is primarily due to additional licenses ordered from a current customer.

The gross margin on software products was 98.9 % and 100.0% for the years ended December 31, 2017 and 2016, 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 modified 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 how work occurs on the desktop. 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, 2017 decreased 41.2% or \$365,000 from \$885,000 in 2016 to \$520,000 in 2017. The decrease in maintenance revenue in 2017 is primarily due to the cancellation of a maintenance contract in 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 69.0% and 82.0% for 2017 and 2016, 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, 2017 decreased 12.0% or \$34,000 from \$283,000 in 2016 to \$249,000 in 2017. The decrease in services revenues in 2017 is primarily attributable to a decrease 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 (59.4%) and (49.5%) for 2017 and 2016, respectively. The increase in gross margin loss in 2017 was primarily attributable to the decrease in consulting revenue partially offset by a decrease in consulting expenses from a decrease in headcount and travel expenses.

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 8.7% or \$45,000 from \$515,000 in 2016 to \$470,000 in 2017. The decrease is primarily attributable to lower headcount and advertising expense partially offset by higher outside professional services and commission expense.

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 7.9% or \$92,000 to from \$1,163,000 in 2016 to \$1,071,000 in 2017. 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 increased 9.2% or \$81,000 from \$878,000 in 2016 to \$959,000 in 2017. The increase is primarily attributable to an increase in legal and corporate insurance expenses.

General and administrative expenses are not expected to increase in 2018.

**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, 2017. 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 2017 and 2016. Because of the Company's inconsistent earnings history, the deferred tax assets have been fully offset by a valuation allowance.

**Other Income/(Loss).** Other income (net) decreased \$87,000 from other income of \$87,000 in 2016 to zero in 2017. The decrease is primarily due to income from the write off of old liabilities of approximately \$87,000 in fiscal 2016.

Interest expense decreased \$82,000 from \$450,000 in 2016 to \$368,000 in 2017 due to the conversion of approximately \$3,545,000 of outstanding debt with John L. (Launny) Steffens, the Chairman of the Board of Directors into the Company's Series A Preferred Shares of stock.

**Net Loss.** Net loss decreased \$1,794,000 from a net loss of \$3,908,000 in 2016 to a net loss of \$2,114,000 in fiscal 2017. The decrease in net loss is primarily due to the recording of impairment of goodwill of \$1,658,000 in fiscal 2016, lower operating costs from a decrease in headcount and an increase in total revenue.

**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 \$56,000 on December 31, 2017 compared with \$91,000 on December 31, 2016, a decrease of \$35,000. The Company incurred a net loss of \$2,114,000 for the year ended December 31, 2017 compared to net loss of \$3,098,000 for the previous fiscal year. The Company has experienced negative cash flows from operations for fiscal 2017 and 2016. At December 31, 2017, the Company had a working capital deficiency of \$4,929,000.

Operating activities utilized \$1,866,000 in cash, which was primarily comprised of the loss from operations of \$2,114,000, an increase in prepaid expenses of \$19,000 and a decrease in deferred revenue of \$294,000. This was offset by non-cash charges for depreciation of \$6,000 and stock-based compensation expense of \$3,000, a decrease in accounts receivable of \$55,000 and an increase in trade payables and other accruals of \$497,000.

The Company utilized approximately \$4,000 in cash updating the Company's network and computer equipment.

### ***Financing Activities***

The Company funded its cash needs during the year ended December 31, 2017 with cash on hand from December 31, 2016, the revenue generated in fiscal 2017, and through the use of proceeds from other short-term borrowings in the amount of \$1,835,000, net of repayments.

From time to time during 2015 through 2017, 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%. The Company is obligated to repay the notes with the collection of any accounts receivable. 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 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%. In August 2017, the Company issued 5,083 shares of its Series A preferred stock to convert its total obligation at that time of \$3,544,500 of principal and \$1,538,905 of interest. (See Note 5). Subsequent to that the Company issued promissory notes to Mr. Steffens in the aggregate principal amount of \$1,170,000. At December 31, 2017, the Company was indebted to Mr. Steffens in the approximate amount of \$1,170,000 of principal and \$75,000 of interest.

Although the Company has incurred an operating loss of approximately \$2,114,000 for the year ended December 31, 2017, and has a history of operating losses, management believes that its product's functionality resonates in the marketplace as both "analytics" and "automation" are topics often discussed and written about. Further, the Company believes that its repositioned strategy of 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 partners, customers and prospects. In August 2017, the Company issued 5,083 of its Series A preferred stock and a Warrant to purchase up to 20,333,620 shares of the Company's Common Stock at an exercise price of \$0.07 per share to its Chairman, John Steffens as part of a conversion of debt and interest totaling \$5,083,405 improving its working capital deficiency. The Company has borrowed \$1,873,000 and \$1,038,000 in 2017 and 2016, respectively. 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 30, 2018, on our consolidated financial statements for the period ended December 31, 2017 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. The Company is adopting ASU 2014-09 Revenue from Contracts with Customers (Topic 606) as of January 1, 2018. Based on the evaluation the Company performed on its customer contracts, the adoption will not have a material impact on the Company's financial position, results of operations, cash flow, accounting policies, business processes, internal controls or disclosures.

**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.

**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, 2017, we had a valuation allowance of \$38,856,000 against \$38,856,000 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, 2017, the Company has net operating loss carryforwards of approximately \$146,433,000 which may be applied against future taxable income. These carryforwards will expire at various times between 2021 and 2037.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. As a result of The Act, the Company recorded one-time adjustments for the re-measurement of deferred tax assets (liabilities). Given the Company's full valuation allowance as of December 31, 2017, the adjustment does not materially impact the Company's income tax provision or balance sheet.

As of December 31, 2017, the valuation allowance of \$38,900,000 related primarily to net operating losses not likely to be realized. The Company re-measured these non-current assets and liabilities at the applicable tax rate of 21% in accordance with the Tax Cuts and Jobs Act of 2017. The re-measurement resulted in a total decrease in these assets of \$18,300,000.

#### **Recent Accounting Pronouncements:**

The FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment award transactions including (a) income tax consequences; (b) classification of awards as either debt or equity liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has adopted this ASU as of January 1, 2017. The primary amendment impacting the Company's financial statements is the requirement for excess tax benefits or shortfalls on the exercise of stock-based compensation awards to be presented in income tax expense in the Consolidated Statements of Income during the period the award is exercised as opposed to being recorded in Additional paid-in capital on the Consolidated Balance Sheets. The excess tax benefit or shortfall is calculated as the difference between the fair value of the award on the date of exercise and the fair value of the award used to measure the expense to be recognized over the service period. Changes are required to be applied prospectively to all excess tax benefits and deficiencies resulting from the exercise of awards after the date of adoption. The ASU requires a "modified retrospective" approach application for excess tax benefits that were not previously recognized in situations where the tax deduction did not reduce current taxes payable. For the year ended December 31, 2017, the amount is immaterial. As the end result is dependent on the future value of the Company's stock as well as the timing of employee exercises, the amount of future impact cannot be quantified at this time.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, 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.

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 does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, 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 May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606) Section A—Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40) 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. We have utilized a comprehensive approach to assess the impact of the guidance on our contract portfolio. We have reviewed our current accounting policies and practices to identify potential differences resulting from the application of the new requirements to our revenue contracts, including evaluation of performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, allocating the transaction price to each separate performance obligation and accounting treatment of costs to obtain and fulfill contracts. In addition, we will update certain disclosures, as applicable, included in our financial statements to meet the requirements of the new guidance. We have completed our review of contracts with our customers and we do not expect to record a cumulative effect adjustment to accumulated deficit upon adoption of the new revenue standard as of January 1, 2018. Based on the evaluation the Company performed on its customer contracts, the adoption will not have a material impact on the Company's financial position, results of operations, cash flow, accounting policies, business processes, internal controls or disclosures.

**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, 2017. 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, 2017, 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, 2017.

(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:

| <u>Name</u>            | <u>Age</u> | <u>Position(s)</u>                                           |
|------------------------|------------|--------------------------------------------------------------|
| John L. Steffens       | 76         | Director and Chairman                                        |
| John Broderick         | 68         | Director and Chief Executive Officer/Chief Financial Officer |
| Benjamin L. Rosenzweig | 32         | Director                                                     |
| Thomas Avery           | 64         | Director                                                     |
| Mark Landis            | 76         | Director                                                     |
| Don Peppers            | 67         | Director                                                     |
| Todd Sherin            | 44         | Chief Revenue Officer                                        |

#### **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 currently serves on the Board of Directors of Colony NorthStar, Inc. He also serves on the advisory boards of StarVest Partners and Wicks Communication & Media Partners, L.P. In addition, he is currently National Chairman Emeritus of the Alliance for Aging Research and a member of the Board of Overseers of the Geisel School of Medicine at Dartmouth. Previously, Mr. Steffens served as Chairman of the Securities Industry Association (now the Securities Industry and Financial Markets Association, or SIFMA) and as a Trustee of the Committee for Economic Development. 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.

**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 Dataflow Technologies, Inc., and continues in that role. 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 Teletelch 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. Peppers' qualifications to serve on our Board of Directors include his years of experience providing strategic advisory services to organizations.

**Todd Sherin**

Mr. Sherin has been the Chief Revenue Officer of the Company since July 2017 where he oversees Sales and Marketing, in addition to Operations, including Product Strategy and Development. Prior to his role at Cicero, Inc., Mr. Sherin founded Wysk, LLC a Contact Center focused Systems Integrator. Under his leadership, the boutique SI/VAR became a premier Workforce Optimization specialist firm and was successfully sold to a Pan American Value-Added Reseller. Previously, Mr. Sherin held multiple technical and sales roles at Anexinet, Liquid Hub, Pfizer and HIS Global Insight. Mr. Sherin received his B.A. degree in International Relations from University of Pennsylvania.

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, 2017. Mr. Landis attended every meeting while 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](http://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 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 grants 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 considering, 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 2017.

### **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 achieved a non-equity bonus of \$25,000 in fiscal 2017 but did not achieve a non-equity bonus in fiscal 2016. Our Chief Technology Officer did not achieve a non-equity bonus in fiscal 2017 or 2016.

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 2018.

### **Long-Term Equity Incentive Awards**

The Company presently has one equity-based compensation plan under which grants were 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 as 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. The plan expired in 2017 and as such there are no shares 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 2017 and 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 2017 and 2016.

#### Summary Compensation Table

| Name and Principal Position                                                                   | Fiscal Year | Salary        | Stock Awards | Non- Equity Incentive Plan Compensation | All Other Compensation (5) | Total      |
|-----------------------------------------------------------------------------------------------|-------------|---------------|--------------|-----------------------------------------|----------------------------|------------|
| John P. Broderick<br>Chief Executive Officer, Chief Financial Officer,<br>Corporate Secretary | 2017        | \$ 175,000(1) | --           | \$ 25,000(4)                            | \$ 2,322                   | \$ 177,383 |
|                                                                                               | 2016        | \$ 175,000(1) | --           | \$ --                                   | \$ 2,383                   | \$ 177,383 |
| Antony Castagno<br>Chief Technology Officer (6)                                               | 2017        | \$ 150,000(2) | --           | --                                      | \$ 8,871                   | \$ 158,616 |
|                                                                                               | 2016        | \$ 150,000(2) | --           | --                                      | \$ 8,616                   | \$ 158,616 |
| Todd Sherin                                                                                   | 2017        | \$ 71,685(3)  | --           | --                                      | \$ 10,558                  |            |

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

(2) Mr. Castagno was deferring \$25,000 of his annual salary which commenced in April 2014 and ended in August 2018.

(3) Mr. Sherin was hired in July 2017.

(4) Non-equity incentive plan compensation for Mr. Broderick includes a bonus for certain revenue transactions earned during fiscal year ended December 31, 2017. The revenue transaction was the acceptance of the first contract greater than \$300,000 for each fiscal year.

(5) 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, 2017 and 2016, respectively.

(6) Mr. Castagno's employment with the Company was terminated on January 15, 2018.

## Grants of Plan Based Awards

The Company did not award any stock options to the named executives during fiscal 2017 and 2016. The Company did not award any stock appreciation rights (SARs) during fiscal 2017 and 2016.

The following table presents the number and values of exercisable options as of December 31, 2017 by the named executive.

### Outstanding Equity Awards at December 31, 2017

| Name                | Option Awards                                                              |                                                                                        |                            |                        | Stock Awards                                   |                                                      |
|---------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------|------------------------|------------------------------------------------|------------------------------------------------------|
|                     | 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   | 75,000(1)                                                                  | --                                                                                     | \$ 0.09                    | 08/20/2020             | 549,630(3)                                     | \$ 4,397                                             |
|                     |                                                                            |                                                                                        |                            |                        | 1,500,000(4)                                   | \$ 12,000                                            |
| Antony Castagno (5) | 75,000(1)                                                                  | --                                                                                     | \$ 0.09                    | 08/20/2020             |                                                |                                                      |
|                     | 211,539(2)                                                                 | --                                                                                     | \$ 0.05                    | 07/20/2025             |                                                |                                                      |

(1) 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.

(2) 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.

(3) 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.

(4) 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.

(5) Mr. Castagno's employment with the Company was terminated on January 15, 2018.

## Options Exercised and Stock Vested

The named executives did not exercise any options during the year ended December 31, 2017. Mr. Broderick and Mr. Castagno have 75,000 and 286,539 outstanding options respectively at December 31, 2017.

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

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 \$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, 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, 2017, 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. In August 2017, the Company notified Mr. Castagno that it would not renew his employment contract. Mr. Castagno's employment with the Company was terminated on January 15, 2018.

#### 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, 2017. 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 2017 that had not been paid in fiscal 2017.

|                                       | Base Salary | Restricted<br>Shares Award | Deferred<br>Compensation | Total<br>Compensation<br>and Benefits |
|---------------------------------------|-------------|----------------------------|--------------------------|---------------------------------------|
| <b>John P. Broderick</b>              |             |                            |                          |                                       |
| Death                                 | \$ --       | \$ 16,397                  | \$ 219,792               | \$ 236,189                            |
| Disability                            | --          | 16,397                     | 219,792                  | 236,189                               |
| Involuntary termination without cause | 175,000     | 16,397                     | 219,792                  | 411,189                               |
| Change in Control                     | 175,000     | 16,397                     | 219,792                  | 411,189                               |
| <b>Antony Castagno</b>                |             |                            |                          |                                       |
| Death                                 | \$ --       | \$ --                      | \$ 91,667                | \$ 91,667                             |
| Disability                            | --          | --                         | 91,667                   | 91,667                                |
| Involuntary termination without cause | 75,000(1)   | --                         | 91,667                   | 166,667                               |
| Change in Control                     | 75,000(1)   | --                         | 91,667                   | 166,667                               |

(1) Mr. Castagno's contract expired on December 31, 2017.

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 2017. The plan expired in 2017 and as such there are no shares available for future option grants and awards.

#### Director Compensation

No cash or non-cash compensation was paid during fiscal 2017 by us to our non-employee directors who served during fiscal 2017.

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

The following table sets forth information as of February 28, 2018 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 207,913,541 common shares outstanding as of February 28, 2018. 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 | No. of Series A Shares | % of Class | % of Combined Class |
|-------------------------------------------------------------------------|----------------------|------------|------------------------|------------|---------------------|
| John L. Steffens (1)                                                    | 283,147,000          | 67.6%      | 5,083                  | 100%       | 76.5%               |
| Privet Fund Management LLC (2)                                          | 168,102,778          | 49.0%      | --                     |            | 47.0%               |
| Mark and Carolyn P. Landis (3)                                          | 8,559,020            | 4.1%       | --                     |            | 4.1%                |
| Thomas Avery (5)                                                        | 4,605,555            | 2.2%       | --                     |            | 2.2%                |
| Don Peppers (6)                                                         | 5,424,957            | 2.6%       | --                     |            | 2.6%                |
| John P. Broderick (7)                                                   | 2,127,608            | 1.0%       | --                     |            | 1.0%                |
| Benjamin Rosenzweig                                                     | --                   | *          | --                     |            | *                   |
| Antony Castagno/SOAdesk LLC(4)                                          | 17,947,075           | 8.6%       | --                     |            | 8.6%                |
| All current directors and executive officers as a group (6 persons) (8) | 202,196,039          | 72.2%      | 5,083                  | 100%       | 79.6%               |

\* Represents less than one percent of the outstanding shares.

1. The address of John L. Steffens is 65 East 55<sup>th</sup> Street, New York, N.Y. 10022. Includes 120,932,501 shares of common stock, 101,668,101 common shares issuable upon conversion of Series A Convertible Preferred Stock, 60,536,398 shares issuable upon the exercise of warrants and 10,000 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 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 7,000 shares subject to stock options.
4. The address of Mr. Castagno is 1110 3<sup>rd</sup> Street South, St. Petersburg, FL 33701. Mr. Castagno is a principal owner of SOAdesk LLC. Includes 17,660,536 shares of common stock, and 286,539 shares subject to stock options.
5. Includes 500,000 shares of common stock and 4,105,555 shares issuable upon the exercise of warrants.
6. Includes 3,165,179 shares of common stock, warrants to acquire 2,252,778 shares of common stock and 7,000 shares subject to stock options.
7. Includes 3,248 shares of common stock. 75,000 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.
8. Includes shares issuable upon 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 2015 through 2017, 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%. The Company is obligated to repay the notes with the collection of any accounts receivables. 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 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%. In August 2017, the Company issued 5,083 shares of its Series A preferred stock to convert its total obligation at that time of \$3,544,500 of principal and \$1,538,905 of interest. (See Note 5). Subsequent to that the Company issued promissory notes to Mr. Steffens in the aggregate principal amount of \$1,170,000. At December 31, 2017, the Company was indebted to Mr. Steffens in the approximate amount of \$1,170,000 of principal and \$75,000 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 initially December 31, 2015 with an annual interest rate of 10%. Through a series of amendments, the maturity date was extended to January 1, 2019. Included in the last two amendments were four milestone payments of \$62,500 each to be paid to interest first and then principal and payable on June 1, 2017, December 1, 2017, June 1, 2018, and December 1, 2018, respectively. The Company's Chairman has agreed to personally guarantee these, and only these, milestone payments.

Between July and October 2017, the Company entered into short-term notes payable totaling \$38,000 with John Broderick, the Chief Executive Officer, for various working capital needs. The notes bore interest at 10%. The total principal and interest of \$38,000 was paid in full between July and October 2017.

#### **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, 2017 and 2016.

#### **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 2017 and 2016 (and reviews of quarterly consolidated financial statements on Form 10-Q) were \$86,700 and \$85,500, 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 2017 and 2016.

**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 2017 and 2016.

**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 2017 and 2016.

**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.

**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, 2017 and 2016

Consolidated Statements of Operations for the years ended December 31, 2017 and 2016

Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016

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                                                                                                                                                                                                                                       |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#"><u>3.1</u></a>   | 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).                             |
| <a href="#"><u>3.2</u></a>   | Certificate of Designation, preferences and Rights of Series A Convertible Preferred Stock, (incorporated by reference to exhibit 3.1 to Cicero's Form 8-K filed August 14, 2017).                                                                |
| <a href="#"><u>3.4</u></a>   | 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).                                                                                           |
| <a href="#"><u>4.1</u></a>   | 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).                                                                                             |
| <a href="#"><u>4.2</u></a>   | 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).                                                                                             |
| <a href="#"><u>4.3</u></a>   | Form of Amended Long-term Promissory Note Stock Purchase Warrant (incorporated by reference to exhibit 4.3 to Cicero Inc.'s Form 10-K/A filed April 9, 2010).                                                                                     |
| <a href="#"><u>4.4</u></a>   | Form of Investor Warrant Agreement (incorporated by reference to exhibit 4.4 to Cicero Inc.'s Form 10-K filed March 31, 2014)                                                                                                                     |
| <a href="#"><u>4.5</u></a>   | 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)                                                                                                      |
| <a href="#"><u>10.2</u></a>  | 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). |
| <a href="#"><u>10.3A</u></a> | 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).                           |
| <a href="#"><u>10.3B</u></a> | 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).                                                   |
| <a href="#"><u>10.3C</u></a> | 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).                               |
| <a href="#"><u>10.1</u></a>  | 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).                                                                                                         |
| <a href="#"><u>10.21</u></a> | 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).                                     |
| <a href="#"><u>10.23</u></a> | 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).                                                       |
| <a href="#"><u>10.24</u></a> | 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).                                                             |
| <a href="#"><u>10.26</u></a> | 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)*                                                     |
| <a href="#"><u>10.27</u></a> | 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).                                      |
| <a href="#"><u>10.28</u></a> | 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).                                                          |
| <a href="#"><u>10.29</u></a> | 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)*.                                                        |
| <a href="#"><u>10.30</u></a> | 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).                                       |
| <a href="#"><u>10.31</u></a> | 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)                                   |
| <a href="#"><u>10.32</u></a> | 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)                                          |
| <a href="#"><u>10.33</u></a> | 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)                                                                                               |
| <a href="#"><u>10.34</u></a> | 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)                                                                                |

|                              |                                                                                                                                                                                                               |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#"><u>10.35</u></a> | Lease Agreement for Cary, N.C. offices, dated October 26, 2016, between Cicero Inc. and Regency Park Corporation (incorporated by reference to exhibit 10.35 to Cicero Inc.'s Form 10-K filed March 31, 2017) |
| <a href="#"><u>14.1</u></a>  | Code of Ethics (incorporated by reference to exhibit 14.1 to Level 8's Form 10-K/A, filed March 31, 2004).                                                                                                    |
| <a href="#"><u>21.1</u></a>  | List of subsidiaries of the Company (filed herewith).                                                                                                                                                         |
| <a href="#"><u>23.1</u></a>  | Consent of Independent Registered Public Accounting Firm (filed herewith).                                                                                                                                    |
| <a href="#"><u>31.1</u></a>  | Certification of Chief Executive pursuant to Rule 13a-14(a) (filed herewith).                                                                                                                                 |
| <a href="#"><u>31.2</u></a>  | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).                                                                                                                         |
| <a href="#"><u>32.1</u></a>  | 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 30, 2018

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.

| <u>Signature</u>                                            | <u>Title</u>                                                                                                               | <u>Date</u>    |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|----------------|
| <u>/s/ John L. Steffens</u><br>John L. Steffens             | Chairman of the Board                                                                                                      | March 30, 2018 |
| <u>/s/ John P. Broderick</u><br>John P. Broderick           | Chief Executive Officer/Chief Financial Officer<br>(Principal Executive and Financial and Accounting Officer) and Director | March 30, 2018 |
| <u>/s/ Benjamin L. Rosenzweig</u><br>Benjamin L. Rosenzweig | Director                                                                                                                   | March 30, 2018 |
| <u>/s/ Thomas Avery</u><br>Thomas Avery                     | Director                                                                                                                   | March 30, 2018 |
| <u>/s/ Mark Landis</u><br>Mark Landis                       | Director                                                                                                                   | March 30, 2018 |
| <u>/s/ Don Peppers</u><br>Don Peppers                       | Director                                                                                                                   | March 30, 2018 |

## **INDEX TO FINANCIAL STATEMENTS**

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

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Cicero Inc. and Subsidiaries (the "Company") as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

**Going Concern Uncertainty**

These financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a working capital deficiency as of December 31, 2017. 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 financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2012.

/s/ CHERRY BEKAERT LLP

Raleigh, North Carolina  
March 30, 2018

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

|                                                                                                                                                                                                                                              | December 31,<br>2017 | December 31,<br>2016 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                                |                      |                      |
| Current assets:                                                                                                                                                                                                                              |                      |                      |
| Cash                                                                                                                                                                                                                                         | \$ 56                | \$ 91                |
| Trade accounts receivable                                                                                                                                                                                                                    | 223                  | 278                  |
| Prepaid expenses and other current assets                                                                                                                                                                                                    | 53                   | 34                   |
| Total current assets                                                                                                                                                                                                                         | 332                  | 403                  |
| Property and equipment, net                                                                                                                                                                                                                  | 7                    | 9                    |
| Total assets                                                                                                                                                                                                                                 | <u>\$ 339</u>        | <u>\$ 412</u>        |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                                                                                                                                                                                                 |                      |                      |
| Current liabilities:                                                                                                                                                                                                                         |                      |                      |
| Short-term debt less unamortized discount (Note 5)                                                                                                                                                                                           | \$ 1,220             | \$ 5,483             |
| Accounts payable                                                                                                                                                                                                                             | 1,102                | 1,032                |
| Accrued expenses:                                                                                                                                                                                                                            |                      |                      |
| Salaries, wages, and related items                                                                                                                                                                                                           | 1,680                | 1,529                |
| Interest payable                                                                                                                                                                                                                             | 216                  | 2,164                |
| Other                                                                                                                                                                                                                                        | 589                  | 589                  |
| Deferred revenue                                                                                                                                                                                                                             | 454                  | 748                  |
| Total current liabilities                                                                                                                                                                                                                    | 5,261                | 11,545               |
| Long-term debt                                                                                                                                                                                                                               | 890                  | --                   |
| Total liabilities                                                                                                                                                                                                                            | <u>\$ 6,151</u>      | <u>\$ 11,545</u>     |
| Commitments and contingencies (Notes 12 and 13)                                                                                                                                                                                              |                      |                      |
| Stockholders' deficit:                                                                                                                                                                                                                       |                      |                      |
| Convertible preferred stock, \$0.001 par value, 10,000,000 shares authorized 5,083 Series A shares issued and outstanding at December 31, 2017. No shares issued and outstanding at December 31, 2016 \$500 per share liquidation preference | --                   | --                   |
| Common stock, \$0.001 par value, 600,000,000 shares authorized at December 31, 2017 and December 31, 2016; 207,913,541 issued and outstanding at December 31, 2017 and 192,253,005 issued and outstanding at December 31, 2016 (Note 8)      | 208                  | 192                  |
| Additional paid-in-capital                                                                                                                                                                                                                   | 253,691              | 246,272              |
| Accumulated deficit                                                                                                                                                                                                                          | (259,711)            | (257,597)            |
| Total stockholders' deficit                                                                                                                                                                                                                  | (5,812)              | (11,133)             |
| Total liabilities and stockholders' deficit                                                                                                                                                                                                  | <u>\$ 339</u>        | <u>\$ 412</u>        |

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, |                   |
|---------------------------------------------------------|--------------------------|-------------------|
|                                                         | 2017                     | 2016              |
| Revenue:                                                |                          |                   |
| Software                                                | \$ 549                   | \$ 83             |
| Maintenance                                             | 520                      | 885               |
| Services                                                | 249                      | 283               |
| Total operating revenue                                 | <u>1,318</u>             | <u>1,251</u>      |
| Cost of revenue:                                        |                          |                   |
| Software                                                | 6                        | --                |
| Maintenance                                             | 161                      | 159               |
| Services                                                | 397                      | 423               |
| Total cost of revenue                                   | <u>564</u>               | <u>582</u>        |
| Gross margin                                            | <u>754</u>               | <u>669</u>        |
| Operating expenses:                                     |                          |                   |
| Sales and marketing                                     | 470                      | 515               |
| Research and product development                        | 1,071                    | 1,163             |
| General and administrative                              | 959                      | 878               |
| Goodwill impairment charge                              | --                       | 1,658             |
| Total operating expenses                                | <u>2,500</u>             | <u>4,214</u>      |
| Loss from operations before other income (charges)      | <u>(1,746)</u>           | <u>(3,545)</u>    |
| Other income (charges):                                 |                          |                   |
| Interest expense                                        | (368)                    | (450)             |
| Other (Note 1)                                          | --                       | 87                |
| Total other income/(expense)                            | <u>(368)</u>             | <u>(363)</u>      |
| Net loss                                                | <u>\$ (2,114)</u>        | <u>\$ (3,908)</u> |
| Loss per share applicable to common stockholders:       |                          |                   |
| Basic and diluted                                       | <u>\$ (0.01)</u>         | <u>\$ (0.02)</u>  |
| Weighted Average shares outstanding – basic and diluted | <u>200,191</u>           | <u>192,253</u>    |

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

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

|                                                                 | <u>Common Stock</u> |               | <u>Preferred Stock</u> |               | <u>Additional</u> | <u>Accumulated</u>  | <u>Total</u>      |
|-----------------------------------------------------------------|---------------------|---------------|------------------------|---------------|-------------------|---------------------|-------------------|
|                                                                 | <u>Shares</u>       | <u>Amount</u> | <u>Shares</u>          | <u>Amount</u> | <u>Paid-in</u>    | <u>(Deficit)</u>    |                   |
| 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)       |
| Options issued as compensation                                  |                     |               |                        |               | 3                 |                     | 3                 |
| Common Stock issued for conversion of debt/interest             | 15,660,536          | 16            |                        |               | 2,333             |                     | 2,349             |
| Series A Preferred Stock issued for conversion of debt/interest |                     |               | 5                      | --            | 5,083             |                     | 5,083             |
| Net loss                                                        |                     |               |                        |               |                   | (2,114)             | (2,114)           |
| Balance at December 31, 2017                                    | <u>207,913,541</u>  | <u>\$ 208</u> | <u>5</u>               | <u>--</u>     | <u>\$ 253,691</u> | <u>\$ (259,711)</u> | <u>\$ (5,812)</u> |

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, |              |
|-----------------------------------------------------------------------------|--------------------------|--------------|
|                                                                             | 2017                     | 2016         |
| Cash flows from operating activities:                                       |                          |              |
| Net loss                                                                    | \$ (2,114)               | \$ (3,908)   |
| Adjustments to reconcile net loss to net cash used in operating activities: |                          |              |
| Depreciation                                                                | 6                        | 5            |
| Stock compensation expense                                                  | 3                        | 3            |
| Amortization of debt discount                                               | --                       | 268          |
| Goodwill impairment charge                                                  | --                       | 1,658        |
| Gain on write down of liabilities                                           | --                       | (87)         |
| Changes in assets and liabilities:                                          |                          |              |
| Trade accounts receivable                                                   | 55                       | (22)         |
| Prepaid expenses and other assets                                           | (19)                     | 201          |
| Accounts payable and accrued expenses                                       | 497                      | (224)        |
| Deferred revenue                                                            | (294)                    | 157          |
| Net cash used in operating activities                                       | (1,866)                  | (1,949)      |
| Cash flows from investing activities:                                       |                          |              |
| Purchases of property and equipment                                         | (4)                      | (3)          |
| Net cash used in investing activities                                       | (4)                      | (3)          |
| Cash flows from financing activities:                                       |                          |              |
| Borrowings under short and long-term debt                                   | 1,873                    | 1,038        |
| Repayments of short and long-term debt                                      | (38)                     | (4)          |
| Net cash provided by financing activities                                   | 1,835                    | 1,034        |
| Net decrease in cash                                                        | (35)                     | (918)        |
| Cash at beginning of year                                                   | 91                       | 1,009        |
| Cash at end of year                                                         | <u>\$ 56</u>             | <u>\$ 91</u> |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

|                                |              |              |
|--------------------------------|--------------|--------------|
| Cash paid during the year for: |              |              |
| Taxes                          | \$ 6         | \$ 11        |
| Interest                       | <u>\$ 93</u> | <u>\$ 38</u> |

Non-Cash Investing and Financing Activities

**2017**

During August 2017, the Company converted \$3,544 of debt and \$1,539 of interest to a related party lender by issuing 5,083 shares of its Series A preferred stock.

During June 2017, the Company converted \$1,796 of debt and \$553 of interest to a related party lender by issuing 15,660,536 shares of its common stock.

**2016**

None.

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

**CICERO INC.**  
**NOTES TO 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 \$2,114,000 for the year ended December 31, 2017, and has a history of operating losses. Management believes that its repositioned dual strategy of leading with its Insight 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, 2017, 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, 2017 and 2016, 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/customer life, 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 \$91,000 and \$117,000 for the years ended December 31, 2017 and 2016, 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 \$1,071,000 and \$1,163,000 for the years ended December 31, 2017 and 2016, respectively.

**Goodwill impairment charge:**

In 2016, we recorded a non-cash goodwill impairment charge of \$1,658,000. 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.

**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 2017 and 2016, 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:

|                 | 2017               | 2016               |
|-----------------|--------------------|--------------------|
| Stock options   | 1,577,750          | 2,832,212          |
| Warrants        | 228,004,448        | 207,859,113        |
| Preferred stock | 101,668,101        | --                 |
|                 | <u>331,250,299</u> | <u>210,691,325</u> |

**Stock-Based Compensation:**

The Company accounts for stock-based compensation to employees 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 2017 and 2016 and recognized approximately \$3,000 of stock-based compensation in fiscal year 2017 and 2016, respectively.

**Recent Accounting Pronouncements:**

The FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment award transactions including (a) income tax consequences; (b) classification of awards as either debt or equity liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has adopted this ASU as of January 1, 2017. The primary amendment impacting the Company's financial statements is the requirement for excess tax benefits or shortfalls on the exercise of stock-based compensation awards to be presented in income tax expense in the Consolidated Statements of Income during the period the award is exercised as opposed to being recorded in Additional paid-in capital on the Consolidated Balance Sheets. The excess tax benefit or shortfall is calculated as the difference between the fair value of the award on the date of exercise and the fair value of the award used to measure the expense to be recognized over the service period. Changes are required to be applied prospectively to all excess tax benefits and deficiencies resulting from the exercise of awards after the date of adoption. The ASU requires a "modified retrospective" approach application for excess tax benefits that were not previously recognized in situations where the tax deduction did not reduce current taxes payable. For the twelve month period ended December 31, 2017, the amount is immaterial. As the end result is dependent on the future value of the Company's stock as well as the timing of employee exercises, the amount of future impact cannot be quantified at this time.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, 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.

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 ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, 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 May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606) Section A—Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40) 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. We have utilized a comprehensive approach to assess the impact of the guidance on our contract portfolio. We have reviewed our current accounting policies and practices to identify potential differences resulting from the application of the new requirements to our revenue contracts, including evaluation of performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, allocating the transaction price to each separate performance obligation and accounting treatment of costs to obtain and fulfill contracts. In addition, we will update certain disclosures, as applicable, included in our financial statements to meet the requirements of the new guidance. We have completed our review of contracts with our customers and we do not expect to record a cumulative effect adjustment to accumulated deficit upon adoption of the new revenue standard as of January 1, 2018. Based on the evaluation the Company performed on its customer contracts, the adoption will not have a material impact on the Company's financial position, results of operations, cash flow, accounting policies, business processes, internal controls or disclosures.

## NOTE 2. ACCOUNTS RECEIVABLE

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

|                                   | 2017   | 2016   |
|-----------------------------------|--------|--------|
| Current trade accounts receivable | \$ 223 | \$ 278 |

## NOTE 3. PROPERTY AND EQUIPMENT

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

|                                | 2017   | 2016   |
|--------------------------------|--------|--------|
| Computer equipment             | \$ 143 | \$ 138 |
| Furniture and fixtures         | 19     | 19     |
| Office equipment               | 35     | 35     |
|                                | 197    | 193    |
| Less: accumulated depreciation | (190)  | (184)  |
|                                | \$ 7   | \$ 9   |

Depreciation expense of property and equipment was \$6,000 and \$5,000 for the years ended December 31, 2017 and 2016, 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.

|                              | Goodwill     |
|------------------------------|--------------|
| 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,<br>2017 | December 31,<br>2016 |
|---------------------------------------------|----------------------|----------------------|
| Note payable – asset purchase agreement (a) | \$ 421               | \$ 1,518             |
| Note payable – related parties (b)          | 1,170                | 2,879                |
| Notes payable (c)                           | 519                  | 1,086                |
| Unamortized debt discount (b)               | --                   | --                   |
| Total debt                                  | 2,110                | 5,483                |
| Less current portion                        | 1,220                | --                   |
| Total long term debt                        | \$ 890               | \$ --                |

- (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 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. 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 was convertible at the holder's option at any time or at maturity. In July 2015, the Company paid \$25,000 toward the principal amount of the note. At December 31, 2016, the Company was indebted to SOAdesk in the amount of \$675,000 in principal and \$242,000 in interest. On June 30, 2017, the Company issued 6,224,178 shares of its common stock to convert its total obligation of \$675,000 of principal and \$258,627 of interest. This is a related party transaction.

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 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 and two milestone payments of \$62,500, to be applied to outstanding interest and then principal, payable on June 1, 2017 and December 1, 2017, respectively, were added. In April 2017, the maturity date was extended to January 1, 2019 and two milestone payments of \$62,500, to be applied to outstanding interest and then principal, payable on June 1, 2018 and December 1, 2018, respectively, were added. As such, the Company has reclassified this debt to long term debt. At December 31, 2016, the Company was indebted to SOAdesk for \$421,303 in principal and approximately \$63,000 in interest. At December 31, 2017, the Company was indebted to SOAdesk for \$421,303 in principal and approximately \$43,000 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 was 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 was convertible at the holder's option at any time or at maturity. At December 31, 2016, the Company was indebted to SOAdesk for \$421,303 in principal. On June 30, 2017, the Company issued 2,808,687 common shares of its stock to convert its total obligation of \$421,303 of principal.

- (b) From time to time during 2015 through 2017, the Company entered into several short term notes payable with John Steffens, the Company's Chairman of the Board, for various working capital needs. The notes vary from non-interest bearing to interest rate of 12%. The Company is obligated to repay the notes with the collection of any accounts receivables. 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 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%. In August 2017, the Company issued 5,083 shares of its Series A preferred stock and warrants to purchase up to 20,333,620 shares of the Company's common stock at an excise price of \$0.07 per share to convert the total obligation at that time of \$3,544,500 of principal and \$1,538,905 of interest. Subsequent to that the Company issued promissory notes to Mr. Steffens in the aggregate principal amount of \$1,170,000. At December 31, 2017, the Company was indebted to Mr. Steffens in the approximate amount of \$1,170,000 of principal and \$75,000 of interest.

Between July and October 2017, the Company entered into short-term notes payable totaling \$38,000 with John Broderick, the Chief Executive Officer, for various working capital needs. The notes bore interest at 10%. The total principal and interest of \$38,000 was paid in full between July and October 2017.

- (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 amount of \$50,000 of principal and \$64,000 of interest and \$50,000 of principal and \$76,000 of interest, respectively, as of December 31, 2016 and December 31, 2017, 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, 2016, the Company was indebted to SOAdesk in the amount of \$700,000 in principal and \$277,000 in interest. The note was 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. On June 30, 2017, the Company issued 6,627,671 shares of its common stock to convert its total obligation of \$700,000 of principal and \$294,151 of interest.

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, 2016, the Company was indebted to this private lender in the amount of \$336,000 in principal and \$137,000 in interest. In August 2017, the note was amended to extend the maturity date to January 31, 2021 and a new principal balance of \$468,500. Simultaneously a \$30,000 interest payment was made to the lender. A new repayment schedule of quarterly principal and interest payments was added beginning in January 31, 2018 with a payment of \$30,000. \$25,000 quarterly principal and interest payments will be made beginning on April 30, 2017 through January 31, 2019. \$40,000 principal and interest payments will be made on beginning on April 30, 2019 through October 31, 2020. Final payment of remaining principal and interest is due on January 31, 2021. The lender agreed to waive certain quarterly payments in fiscal 2018 as business conditions so warrant without triggering any default and that any deferred payments would be added to the next quarterly payment. At December 31, 2017, the Company was indebted to this private lender in the amount of \$468,500 in principal and \$21,000 in interest and has been reclassified as long term debt due to its maturity date of January 31, 2021.

#### **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 2015 through 2017, and may be subject to audits for amounts related to net operating loss carryforwards generated in periods prior to December 31, 2014. 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 2017 and 2016. 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):

|                                                     | 2017         | 2016         |
|-----------------------------------------------------|--------------|--------------|
| Expected income tax benefit at statutory rate (34%) | \$ (711)     | \$ (1,329)   |
| State taxes, net of federal tax benefit             | (85)         | (160)        |
| Effect of change in valuation allowance             | (17,483)     | (1,249)      |
| Non-deductible expenses                             | 1            | 1            |
| Change in state tax rate                            | --           | 2,737        |
| Impact of tax rate change                           | 18,278       | --           |
| Total                                               | <u>\$ --</u> | <u>\$ --</u> |

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

|                                      | 2017            | 2016            |
|--------------------------------------|-----------------|-----------------|
| Accrued expenses, non-tax deductible | \$ 5            | \$ 15           |
| Deferred revenue                     | 118             | 281             |
| Contingent payments                  | (538)           | (788)           |
| Stock compensation expense           | 403             | 593             |
| Loss carryforwards                   | 37,935          | 54,802          |
| Depreciation and amortization        | 933             | 1,436           |
|                                      | <u>38,856</u>   | <u>56,339</u>   |
| Less: valuation allowance            | <u>(38,856)</u> | <u>(56,339)</u> |
|                                      | <u>\$ --</u>    | <u>\$ --</u>    |

As of December 31, 2017, we had federal and state net operating loss carryforwards of approximately \$146,433,000. The associated deferred tax asset related to these federal and state net operating loss carryforwards was \$37,935,000. The net operating loss carryforwards expire between 2018 and 2037. The value of these carryforwards depends on our ability to generate taxable income. As of December 31, 2017 and 2016, we had deferred tax assets of \$38,856,000 and \$56,339,000 upon which we had a full valuation allowance. The net change in the valuation allowance of \$18,300,000 for both federal and state deferred tax assets were due to the impact of the tax rate change.

A valuation allowance for deferred tax assets, including NOL carryforwards, is recognized when it is more-likely- than-not that all or some portion of the benefit from the deferred tax asset will not be realized. To assess that likelihood, we use estimates and judgment regarding our future taxable income, and we consider the tax consequences in the jurisdiction where such taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include our current financial position, our results of operations, both actual and forecasted, the reversal of deferred tax liabilities, and tax planning strategies, as well as the current and forecasted business economics of our industry. Management assesses all available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of deferred tax assets. A significant piece of objectively verifiable negative evidence is the cumulative loss incurred over the three-year period ending December 31, 2017. Such objective negative evidence limits our ability to consider various forms of subjective positive evidence, such as our projections for future income. Accordingly, management has not changed its judgement with respect to the need for a valuation allowance against substantially all of our net deferred tax asset position. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income are increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective positive evidence such as future expected growth.

The Company provided a full valuation allowance on the total amount of its deferred tax assets at December 31, 2017 and 2016 since management does not believe that it is more likely than not that these assets will be realized.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. As a result of The Act, the Company recorded one-time adjustments for the re-measurement of deferred tax assets (liabilities). Given the Company's full valuation allowance as of December 31, 2017, the adjustment does not materially impact the Company's income tax provision or balance sheet.

As of December 31, 2017, the valuation allowance of \$38,900,000 related primarily to net operating losses not likely to be realized. The Company re-measured these non-current assets and liabilities at the applicable tax rate of 21% in accordance with the Tax Cuts and Jobs Act of 2017. The re-measurement resulted in a total decrease in these assets of \$18,300,000.

## NOTE 7. STOCKHOLDERS' EQUITY

### 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. The plan expired in fiscal 2017 and as such no further options are available to grant.

Activity for stock options issued under these plans for the years ending December 31, 2017 and 2016 was as follows:

|                              | Number of<br>Options | Option Price<br>Per Share | Weighted<br>Average<br>Exercise Price | Aggregate Intrinsic<br>Value |
|------------------------------|----------------------|---------------------------|---------------------------------------|------------------------------|
| 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                               |                              |
| Granted                      | --                   | --                        | --                                    |                              |
| Forfeited                    | (389,102)            | 0.05-0.51                 | \$ 0.30                               |                              |
| Expired                      | (865,360)            | 0.51                      | \$ 0.51                               |                              |
| Balance at December 31, 2017 | <u>1,577,750</u>     | 0.05-0.51                 | \$ 0.08                               | \$ 0.00                      |

Activity for non-vested stock options under these plans for the fiscal year ending December 31, 2017 and 2016 was as follows:

|                              | Number of<br>Options | Option Price<br>Per Share | Weighted<br>Average<br>Exercise Price |
|------------------------------|----------------------|---------------------------|---------------------------------------|
| 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                               |
| Granted                      | --                   | --                        | --                                    |
| Vested                       | (104,700)            | 0.05                      | \$ 0.05                               |
| Forfeited                    | --                   | --                        | --                                    |
| Balance at December 31, 2017 | --                   | --                        | --                                    |

There were no options granted in 2017 and 2016.

At December 31, 2017, there was no unrecognized compensation cost related to stock options.

At December 31, 2017 and 2016, options to purchase 1,577,750 and 2,752,512 shares of common stock were exercisable, respectively, pursuant to the plans at prices ranging from \$0.05 to \$0.23 . The following table summarizes information about stock options outstanding at December 31, 2017:

| Exercise Price | Number Outstanding | Remaining<br>Contractual Life for<br>Options Outstanding | Number Exercisable | Weighted Average<br>Exercise Price |
|----------------|--------------------|----------------------------------------------------------|--------------------|------------------------------------|
| \$ 0.05-0.06   | 415,000            | 6.2                                                      | 415,000            | \$ 0.05                            |
| 0.07-0.08      | 500,000            | 3.6                                                      | 500,000            | 0.07                               |
| 0.09-0.09      | 537,750            | 2.6                                                      | 537,750            | 0.09                               |
| 0.10-0.23      | 125,000            | 0.9                                                      | 125,000            | 0.18                               |
|                | <u>1,577,750</u>   | <u>3.7</u>                                               | <u>1,577,750</u>   | <u>\$ 0.08</u>                     |

#### Preferred Stock:

On August 14, 2017, the Company entered into agreement with John L. Steffens, the Chairman of the Board of Directors, to convert \$3,544,500 of principal amount of debt and \$1,538,905 of interest into 5,083 shares of the Company's Series A Preferred Stock. Per the Certificate of Designation, the initial conversion of preferred stock to common equaled 101,668,101 of common stock of the Company at a price of \$0.05 per share, subject to adjustment for stock dividends, stock splits and similar events. Additionally, Mr. Steffens was granted a warrant for 20,333,620 of the Company's common shares at a price of \$0.07 per share. (See Note 2). 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.

## Series A

The Series A Preferred Stock ranks senior in preference and priority to the Company's common stock with respect to dividend and liquidation rights and, except as provided in the Certificate of Designation or otherwise required by law, will vote with the common stock on an as converted basis on all matters presented for a vote of the holders of common stock, including directors. The Series A Preferred Stock is convertible at any time at the option of the holder at an initial conversion ratio of 20,000 shares of Common Stock for each share of Series A Preferred Stock. The initial conversion ratio shall be adjusted in the event of any stock splits, stock dividends and other recapitalizations. The holders of the Series A Preferred Stock are entitled to a liquidation preference of \$1,000 per share of Series A Preferred Stock plus any declared but unpaid dividends upon the liquidation of the Company. The Series A Preferred Stock may be redeemed by the Company at any time and must be redeemed by the Company, upon the written request of the holders of at least a majority of the then outstanding shares of Series A Preferred Stock, after the occurrence of one of the following events: (x) the Company's trailing 12 month EBITDA exceeds \$5,000,000, (y) the sale of all, or substantially all of the assets of the Company, or (z) the sale of all or substantially all the intellectual property of the Company, which in the case of "y" or "z" result in net proceeds to the Company in excess of \$6,000,000, at a redemption price equal to \$1,000 plus all declared but unpaid dividends, which amount will be paid in three annual installments. The approval of at least two thirds of the holders of Series A Preferred Stock, voting together as a separate class, is required for: (i) the merger, sale of all, or substantially all of the assets or intellectual property, recapitalization, or reorganization of the Company, unless such action (x) results in net proceeds to the stockholders of the Company in excess of \$5,000,000, and (y) has received the prior approval of the Board of Directors. (ii) the authorization or issuance of any equity security having any right, preference or priority superior to or on parity with the Series A Preferred Stock. (iii) the redemption, repurchase or acquisition, directly or indirectly, through subsidiaries or otherwise, of any equity securities (other than the redemption of the Series A Preferred Stock) or the payment of dividends or other distributions on equity securities by the Company (other than on the Series A Preferred Stock). (iv) any amendment or repeal of any provision of the Company's Certificate of Incorporation or Bylaws that would adversely affect the rights, preferences, or privileges of the Series A Preferred Stock. and (v) the liquidation, dissolution or winding up of the business and affairs of the Company, the effectuation of any Liquidation Event (as defined in Certificate of Designation), or the consent to any of the foregoing, unless such action (x) results in net proceeds to the stockholders of the Company in excess of \$5,000,000, and (y) has received the prior approval of the Board of Directors.

### 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, 2017, there were 228,004,448 exercisable warrants outstanding at an exercise price between \$0.04 and \$0.20 per share.

|                              | Number of<br>Warrants | Warrant Price<br>Per Share | Weighted<br>Average<br>Exercise Price |
|------------------------------|-----------------------|----------------------------|---------------------------------------|
| 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                               |
| Issued                       | 20,333,620            | \$ 0.07                    | \$ 0.07                               |
| Exercised                    | --                    | --                         | --                                    |
| Forfeited                    | (188,285)             | \$ 0.18                    | \$ 0.18                               |
| Balance at December 31, 2017 | 228,004,448           | \$ 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 2017 and 2016.

## NOTE 9. SIGNIFICANT CUSTOMERS AND CONCENTRATION OF CREDIT RISK

In 2017, two customers accounted for 33% and 30%, respectively, of operating revenues and two customers accounted for 67% and 12% of accounts receivable at December 31, 2017. 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 2017, one vendor accounted for 63% of accounts payable at December 31, 2017. In 2016, one vendor accounted for 65% of accounts payable at December 31, 2016.

## NOTE 10. RELATED PARTY INFORMATION

From time to time during 2015 through 2017, 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%. The Company is obligated to repay the notes with the collection of any accounts receivables. 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 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%. In August 2017, the Company issued 5,083 shares of its Series A preferred stock to convert its total obligation at that time of \$3,544,500 of principal and \$1,538,905 of interest. (See Note 5). Subsequent to that the Company issued promissory notes to Mr. Steffens in the aggregate principal amount of \$1,170,000. At December 31, 2017, the Company was indebted to Mr. Steffens in the approximate amount of \$1,170,000 of principal and \$75,000 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 initial maturity date of the note was December 31, 2015 with an annual interest rate of 10%. Through a series of amendments, the maturity date was extended to January 1, 2019. Included in the last two amendments were four milestone payments of \$62,500 each to be paid to interest first and then principal and payable on June 1, 2017, December 1, 2017, June 1, 2018, and December 1, 2018, respectively. The Company's Chairman has agreed to personally guarantee these, and only these, milestone payments. At December 31, 2017, the Company was indebted to SOAdesk for \$421,303 in principal and approximately \$43,000 in interest.

Between July and October 2017, the Company entered into short-term notes payable totaling \$38,000 with John Broderick, the Chief Executive Officer, for various working capital needs. The notes bore interest at 10%. The total principal and interest of \$38,000 was paid in full between July and October 2017.

## 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, 2017 consisted of only one lease as follows (in thousands):

|  |      | Lease<br>Commitments |
|--|------|----------------------|
|  | 2018 | \$ 55                |
|  |      | <u>\$ 55</u>         |

Rent expense was \$65,000 and \$91,000 for each years ended December 31, 2017 and 2016, respectively.

Under the employment agreement between the Company and Mr. Broderick effective January 1, 2018, 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.

#### **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, 2017 and 2016.

#### **NOTE 13. SUBSEQUENT EVENTS**

In first quarter of fiscal 2018, the Company entered into various notes payable totaling \$450,000 with Mr. Steffens. The notes bear interest at 10% annually. They are unsecured and mature on June 30, 2018. Subsequent events have been evaluated through March 30, 2018.

Subsidiaries (all are 100% owned)

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

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-160581) of our report dated March 30, 2018 included in this Annual Report on Form 10-K of Cicero Inc. (the "Company"), relating to the consolidated balance sheets of the Company as of December 31, 2017 and 2016, 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, 2017.

/s/ CHERRY BEKAERT LLP

Raleigh, North Carolina  
March 30, 2018

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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 30, 2018

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

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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 30, 2018

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

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**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, 2017 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 the Securities 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 30, 2018

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