CICERO INC
Form 10-K
March 31, 2014

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

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

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

For the transition period from to

Commission File Number: 000-26392

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

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

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

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

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

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

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 o No þ

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 þ No o

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 þ No o

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. þ

Indicate by check mark whether the registrant is a shell company. Yes o No þ

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 o Accelerated filer o Non - accelerated filer o Smaller reporting company þ

Aggregate market value of the outstanding shares of common stock held by non-affiliates of the Registrant as of June 30, 2013 was approximately $4,384,699 based upon the closing price quoted on the Over The Counter Bulletin Board.

There were 85,806,247 shares of Common Stock outstanding as of March 24, 2014.

Documents Incorporated by Reference: None

CICERO INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2013

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PART I

Item 1. Business

Overview

Cicero, Inc. (the “Company”) provides desktop activity intelligence and improvement software that enables companies to monitor people, processes, and technology, to identify areas for improvement, and to implement change using existing technologies. The Company provides an innovative and unique combination of application and process integration, automation, presentation and desktop analytics capabilities, all without changes to the underlying applications or requiring costly development expenditures. The Company’s software collects activity and application performance data and track business objects across time and multiple users, as well as measures against defined expected business process flow, for either analysis or to feed a third party application. The Company’s software also addresses the emerging need for companies' information systems by securely presenting relevant information in an intuitive manner on desktops. 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 business process automation with its Cicero Discovery™ and Cicero XM® products, respectively.

Cicero Discovery delivers desktop analytics and reporting for the enterprise. 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 Discovery helps customers identify what is actually happening to an object through its life cycle and identify optimal business process and/or critical steps that are missing or holding up the process.

Cicero Discovery includes a Studio environment that enables business analysts and other non-IT staff to configure which applications, processes, and business objects to monitor and how the data should be stored for reporting or shared with another application.

Cicero XM delivers a unified smart desktop solution for enterprise contact center and back office employees. Leveraging existing IT investments Cicero XM integrates applications, automates workflow, guides the employee (presentation, scripts, etc.) and provides control and adaptability in a Smart Desktop.

Cicero XM includes a Studio environment that enables business analysts and other non-IT staff to build and enhance back-end integrations, scripts, smart workflows and composite screens without any impact on underlying applications or business logic.

The Cicero XM suite is highly secure. It has a credentials 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.

Cicero XM utilizes the United Data Model® (UDM). The UDM is supported by a database, enabling the abstraction and separation of the department’s existing technical environment from its business logic. This physical separation empowers IT and the operations managers to build and change the business logic at their discretion. The abstraction capability converts the contact center and other departments into a flexible and agile operating environment that can rapidly and cost effectively respond to the dynamic needs of the enterprise.

The Company provides an integrated toolkit for each product that provides an intuitive configuration and development environment, which simplifies the process of deploying solutions to the enterprise. The Company provides a unique approach that allows companies to organize components 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 by providing a single, seamless user interface for simple access to multiple systems or be configured to display one or more composite applications to enhance productivity either on the desktop. Our technology enables automatic information sharing among line-of-business applications and tools. It is ideal for deployment in organizations that need to provide access to enterprise applications on desktops to improve business performance, the user experience, and customer satisfaction. By integrating diverse applications across multiple operating systems, automating business processes and delivering a better user experience, the Company's products are ideal for the financial services, insurance, healthcare, governmental and other industries requiring a cost-effective, proven business performance and user experience management solution for enterprise desktops.

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

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

Products

The Company’s software products deliver desktop activity intelligence and improvement capabilities to improve business performance. All of our products - Cicero Discovery and Cicero XM - leverage existing technologies by securely monitoring activities and presenting relevant information in an intuitive manner, improving business processes and the user experience.

Cicero Discovery™

Cicero Discovery is a software solution that provides companies operational visibility into how their enterprise desktops are being used and performing to identify areas for process improvement and cost reduction. 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.

Companies are using Cicero Discovery to:

Monitor for potential business rule, compliance, fraud, and company policy issues.

Identify inconsistent workflow or missing steps in given processes.

Publish configured events to stop and start call recording software (or any other purpose).

Identify the step(s) in any or all processes an object (an account, claim, product, etc.) has been through and also what the latest step was and the current step in process.

Define an “anticipated” sequence for a process and report the events as they happen regardless of order.

Distinguish the differences between top and bottom performers.

Pinpoint repetitive and manual tasks that could be automated.

Capture where and when data are cut or copied from applications.

Identify if employees are navigating several screens (clicking, alt + tab) to complete tasks.

Capture, analyze, and focus on key performance indicators and metrics.

Supply desktop activity data to third-party enterprise analysis and reporting applications (e.g., BI, BAM, BPM, WFM/WFO, Speech Analytics, Call Recording, etc.).

Improve application usage and better focus/leverage IT investments.

Cicero XM®

Cicero XM enables businesses to transform human interaction across the enterprise. Cicero XM enables the flow of data between different applications, regardless of the type and source of the application, eliminating redundant entry and costly mistakes. Cicero XM automates up and down-stream process flows, enforcing compliance and optimizing handle time and provides a task-oriented desktop, reducing training time and enabling delivery of best in class service. Cicero XM captures real-time information about each interaction, guiding the business user through an activity and capturing usage data to spot trends and forecast problems before they occur.

Cicero XM software offers a proven, innovative departure from traditional, costly and labor-intensive enterprise application integration solutions. The Company provides non-invasive application integration, reduces enterprise integration implementation cost and time, and extends companies' Service-Oriented Architecture ("SOA") to the desktop. Cicero XM also enables customers to transform applications, business processes and human expertise into a seamless, cost effective business solution that provides a cohesive, task-oriented and role-centric interface that works the way people think.

By using Cicero XM technology, companies can decrease their customer management costs, improve their customer service, 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 XM 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.

Other customers are systems integrators, which use our software to develop integration solutions for their customers.

Merrill Lynch/Bank of America, JP Morgan Chase, and UBS, Inc. each accounted for more than ten percent (10%) of our operating revenues in 2013. Convergys, Inc., Merrill Lynch/Bank of America and UBS, Inc. each accounted for more than ten percent (10%) of our operating revenues in 2012.

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 KnoahSoft, Monet Software, Co-nexus, Pipkins, and Voice Print International. In addition, we have entered into strategic partnerships with eg solutions and Convergys. These organizations have relationships with existing customers or have access to organizations requiring top secret or classified access. In addition, several of these partners can bundle our software with other software to provide a comprehensive solution to customers. We are not materially dependent on any of these organizations. Generally, our agreements with such partners provide for price discounts based on their sales volume, with no minimum required volume.

Marketing

The target market for our products and services are in the financial services, insurance, and healthcare industries, as well as users in the intelligence, security and law enforcement 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, marketing communications and strategic alliances. 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 $1,272,000 and $1,476,000 in 2013 and 2012, respectively.

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

Competition

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

Product functionality and features;

Availability and quality of support services;

Ease of product implementation;

Price;

Product reputation; and

Our financial stability.

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

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

Middleware software provides integration of applications through messages and data exchange implemented typically in the middle tier of the application architecture. This approach requires modification of the application source code and substantial infrastructure investments and operational expense. Reuters, TIBCO and IBM MQSeries are competitors in the middleware market.

CRM software offers application tools that allow developers to build product specific interfaces and custom applications. This approach is not designed to be product neutral and is often dependent on deep integration with our technology. Siebel and Salesforce.com are representative products in the CRM software category.

Recently, there have been several companies that offer capabilities similar to our software in that these companies advertise that they integrate applications without modifying the underlying code for those applications. OpenSpan is one company who advertises that they can non-invasively integrate at the point of contact or on the desktop.

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

Intellectual Property

Our success is dependent upon developing, protecting and maintaining our intellectual property assets. We rely upon combinations of copyright, trademark and trade secrecy protections, along with contractual provisions, to protect our intellectual property rights in software, documentation, data models, methodologies, data processing systems and related written materials in the international marketplace. We have filed applications for patents on our United Data Model. Copyright protection is generally available under United States laws and international treaties for our software and printed materials. The effectiveness of these various types of protection can be limited, however, by variations in laws and enforcement procedures from country to country. We use the registered trademarks “Cicero®”, “Cicero XM®”, “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, 2013, we employed 25 full time employees. Our employees are not represented by a union or a collective bargaining agreement.

Available Information

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

Forward Looking and Cautionary Statements

Certain statements contained in this Annual Report may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). We may also make forward looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to shareholders, in press releases and in other public statements. In addition, our representatives may from time to time make oral forward looking statements. Forward looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects," and similar expressions, may identify such forward looking statements. In accordance with the Reform Act, set forth below are cautionary statements that accompany those forward looking statements. Readers should carefully review these cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward looking statements and from historical trends. The following cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in our filings with the Securities and Exchange Commission and in materials incorporated therein by reference: our future success depends on the market acceptance of our products and successful execution of the strategic direction; general economic or business conditions may be less favorable than expected, resulting in, among other things, lower than expected revenues; an unexpected revenue shortfall may adversely affect our business because our expenses are largely fixed; our quarterly operating results may vary significantly because we are not able to accurately predict the amount and timing of individual sales and this may adversely impact our stock price; trends in sales of our products and general economic conditions may affect investors' expectations regarding our financial performance and may adversely affect our stock price; our future results may depend upon the continued growth and business use of the Internet; 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 2000 through 2013. We incurred a net loss of $0.2 million for 2012 and $3.2 million for 2013. As of December 31, 2013, we had a working capital deficit of $5.3 million. Our ability to generate positive cash flow is dependent upon sustaining certain cost reductions and generating sufficient revenues. If we are unable to generate positive cash flow, our results of operations and financial condition may be adversely affected.

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

The report of our independent auditors dated March 31, 2014 on our consolidated financial statements for the period ended December 31, 2013 included an explanatory 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 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 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 the past three years. At December 31, 2013, the Company had a working capital deficiency of $5.3 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 and a recently introduced product within the enterprise mobilitymarket. 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 more challenging the spending environment 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 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 XM 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 and Cicero XM.

Cicero Discovery is 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 Discovery will compete with traditional quality assurance and desktop analytic solutions that attempt to solve this business problem. Quality assurance and desktop analytic solutions are currently sold and marketed by companies such as OpenSpan and Verint. There can be no assurance that our potential customers will determine that Cicero Discovery’s 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 the Cicero Discovery product.

Cicero XM 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 XM 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 XM'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 XM 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 or Cicero XM 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 by 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.

We believe that to fully implement our business plan we will be required to enhance our ability to work with the Windows 7, Microsoft Vista, Windows XP, and Windows 2000 operating systems as well as the Linux operating system by adding additional development personnel as well as additional direct sales personnel to complement our sales plan.

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.

Some of the rights granted to the holders of our Series A-1 Preferred Stock and Series B Preferred Stock could prevent a potential acquirer from buying our Company.

Holders of our Series A-1 and Series B Preferred Stock have the right to block the Company from consummating a merger, sale of all or substantially all of its assets or recapitalization. Accordingly, the holder of our Series A-1 Preferred Stock and Series B Preferred Stock could prevent the consummation of a transaction in which our stockholders could receive a substantial premium over the current market price for their shares.

Item 1B. Unresolved Staff Comments

Not Applicable

Item 2. Properties

Our corporate headquarters and administrative functions are based in offices of approximately 5,038 square feet in our Cary, North Carolina office pursuant to a lease which expires in 2014. The Company is currently in negotiations to renew the lease. We also believe that our present facilities are suitable for continuing our existing and planned operations.

Item 3. Legal Proceedings

None

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, 2013 and 2012.

	2013		2012	
Quarter	High	Low	High	Low
First	$0.10	$0.05	$0.19	$0.05
Second	$0.06	$0.05	$0.19	$0.14
Third	$0.06	$0.03	$0.15	$0.08
Fourth	$0.04	$0.01	$0.09	$0.04

The closing price of the common stock on March 24, 2014 was $0.04 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 24, 2014, we had 209 registered stockholders of record.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2013, about shares of Common Stock outstanding and available for issuance under the Company’s existing equity compensation plans: the 2007 Cicero Stock Option Plan, the Level 8 Systems, Inc. 1997 Stock Option Incentive Plan, the 1995 Non-Qualified 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	3,396,210	$ 0.31	1,111,090
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 and Cicero XM 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 XM enables businesses to transform human interaction across the enterprise. Cicero XM enables the flow of data between different applications, regardless of the type and source of the application, eliminating redundant entry and costly mistakes. Cicero XM automates up and down-stream process flows, enforcing compliance and optimizing handle time and provides a task-oriented desktop, reducing training time and enabling delivery of best in class service. Cicero XM captures real-time information about each interaction, guiding the business user through an activity and capturing usage data 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, 2013		2012	
Revenue:				
Software	5.7	%	67.7	%
Maintenance	65.7	%	22.2	%
Services	28.6	%	10.1	%
Total	100.0	%	100.0	%
Cost of revenue:				
Software	1.3	%	11.7	%
Maintenance	5.0	%	2.4	%
Services	44.0	%	16.3	%
Total	50.3	%	30.4	%
Gross margin	49.7	%	69.6	%
Operating expenses:				
Sales and marketing	64.9	%	31.6	%
Research and product development	58.0	%	24.6	%
General and administrative	48.1	%	15.8	%
Total	171.1	%	72.1	%
Loss from operations	(121.4	)%	(2.5	)%
Other income/(expense), net	(24.9	)%	(0.6	)%
Net loss	(146.3	)%	(3.1	)%

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

	2013		2012	
United States	100	%	100	%

Years Ended December 31, 2013 and 2012

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

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

Total revenues for the year ended December 31, 2013 decreased 63.4% or $3,805,000 from $5,997,000 in 2012 to $2,192,000 in 2013. The decrease in revenues in 2013 is due primarily to the decrease in revenue in software sales due to two significant enterprise license sales in fiscal 2012 partially offset by an increase in maintenance and consulting revenue.

Software Products. Software products revenue for the year ended December 31, 2013 decreased 96.9% or $3,937,000 from $4,061,000 in 2012 to $124,000 in 2013. The decrease in software revenue in 2013 is primarily due to two significant enterprise license sales in fiscal 2012 and no significant software sales in 2013.

The gross margin on software products was 77.4% and 82.7% for the year ended December 31, 2013 and 2012, respectively. Cost of software is composed primarily of amortization expense related to intangible assets acquired as part of the SOAdesk LLC transaction in January 2010. The decrease in gross margin is primarily due to the decrease in software revenue partially offset by the lower expenses due to the amortization costs of the acquired SOAdesk software being fully amortized as of the first quarter of 2013.

The Company expects to see an increase in software sales coupled with improving margins on software products as Cicero Discovery and Cicero XM gain acceptance in the marketplace. The Company's expectations are based on its modification of the sales approach with customers and prospects. The Company believes that the entry level product for an enterprise is Discovery which allows companies to measure and then manage. Using data and analytics to drive change in an organization begins with capturing that data. 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, 2013 increased 8.0% or $107,000 from $1,333,000 in 2012 to $1,440,000 in 2013. The increase in maintenance revenue in 2013 is primarily due to a new annual maintenance contract with a major financial services company partially offset by the cancellation of two other maintenance contracts.

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 92.4% and 89.1% for 2013 and 2012, respectively.

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

Services. Services revenue for the year ended December 31, 2013 increased 4.1% or $25,000 from $603,000 in 2012 to $628,000 in 2013. The increase in services revenues in 2013 is primarily attributable to an increase in paid consulting engagements.

Cost of services primarily includes personnel and travel costs related to the delivery of services. Services gross margin loss was (53.5%) and (62.4%) for fiscal 2013 and 2012, respectively. The decrease in gross margin loss in 2013 was primarily attributable to the increase in consulting revenue and a decrease in consulting expenses from a decrease in headcount and reduced travel expense.

Services revenues are expected to increase as the Cicero Discovery and Cicero XM 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 25.0% or $474,000 to $1,423,000 in 2013. The decrease is primarily attributable to lower headcount, a decrease in commissions from lower sales and lower trade shows 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 13.8% or $204,000 to $1,272,000 in 2013. The decrease in costs is primarily due to lower headcount and a decrease in travel expenses partially offset by an increase 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 11.2% or $106,000 to $1,055,000 in 2013. The increase is primarily attributable to an adjustment of accrued legal fees in 2012 partially offset by a decrease in professional service expenses.

General and administrative expenses are expected to remain fairly static going forward.

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 2013 and 2012. Because of the Company’s inconsistent earnings history, the deferred tax assets have been fully offset by a valuation allowance.

Other Income/(Charges). Other income (net) decreased $510,000 from other income of $509,000 in 2012 to other loss of $1,000 in 2013. The decrease is primarily due to income from net debt forgiveness in 2012 of approximately $507,000.

Interest expense decreased $2,000 from $547,000 in 2012 to $545,000 in 2013 due to the decrease in debt obligations incurred by the Company due to the conversion of debt to equity in the first quarter of fiscal 2012 partially offset by the additional debt incurred in fiscal year 2013.

Net Loss. Net loss increased $3,018,000 from a net loss of $188,000 in 2012 to a net loss of $3,206,000 in fiscal 2013. The increase in loss is primarily due to the decrease in software revenue and a decrease in other income, partially offset by the decrease in operating expenses in fiscal 2013.

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 $5,000 on December 31, 2013 compared with $69,000 on December 31, 2012, a decrease of $64,000. The Company incurred a net loss of $3,206,000 for the year ended December 31, 2013 compared to net loss of $188,000 for the previous fiscal year. The Company has experienced negative cash flows from operations for each of the past three years. At December 31, 2013, the Company had a working capital deficiency of $5,330,000.

Operating activities utilized $2,375,000 in cash, which was primarily comprised of the loss from operations of $3,206,000 and a decrease of $7,000 in deferred revenue. This was offset by non-cash charges for depreciation of $27,000 and amortization of $28,000, stock compensation expense of $92,000, stock issuance for outside consulting services of $35,000, a decrease in trade receivable of $122,000, a decrease in prepaid expenses of $81,000, and an increase of trade payables and other accruals of $453,000.

The Company utilized approximately $9,000 in cash in the purchase of updating the Company's network and computer equipment.

Financing Activities

The Company funded its cash needs during the year ended December 31, 2013 with cash on hand from December 31, 2012, the revenue generated in fiscal 2013 as well as through the use of proceeds from other short term borrowings in the amount of $2,255,000, net of repayments.

In December 2012, the Company had stock subscription of 10,200,000 shares of its common stock at a price of $0.05 per share. This was part of an offering in a private investment in the Company's common stock. The stock subscription was made up of $186,132 of cash from private investors, the extinguishment of $23,868 of interest on a note with one of the private investors, and the exchange of $300,000 of short term debt with Mr. John Steffens, the Company's Chairman. Additionally, the investors were issued warrants to purchase common stock of the Company at a strike price of $0.20 per share. The warrants expire in five years. 2,040,000 warrants were issued to these investors. In 2013, an additional investment in the offering was made up of $60,000 of cash from private investors and the exchange of $15,000 of short term debt and the extinguishment of $2,012 of interest on a note with one of the private investors for 1,640,241 shares of the Company's common stock and 328,048 warrants. In March 2013, the offering was officially closed and the Company issued 11,840,241 common shares in exchange for $592,012.

From time to time during 2012 through 2013, the Company entered into several short term notes payable with John L. (Launny) Steffens, the Chairman of the Board of Directors, for various working capital needs. The notes bear interest at 12% per year and are unsecured. In December 2012, Mr. Steffens converted $300,000 of his debt into a subscription of 6,000,000 shares of the Company's common stock at a price of $0.05 per share as part of a private investment in the Company's stock. At December 31, 2012, the Company was indebted to Mr. Steffens in the approximate amount of $1,773,000 of principal and $148,000 in interest. In March 2013, Mr. Steffens agreed to extend the maturity date of all outstanding short term notes until April 1, 2014. At December 31, 2013, the Company was indebted to Mr. Steffens in the approximate amount of $4,398,000 of principal and $505,000 in interest. In March 2014, Mr. Steffens agreed to extend the maturity date of all outstanding short term notes until June 30, 2015.

The Company maintained several Note agreements with an individual investor. The borrowings from time to time were both secured and unsecured. Several notes in the aggregate of $250,000 were due and outstanding under the Note agreements. The loans bear interest at 36% per annum. In July 2012, the Company entered into a restructuring settlement with the lender whereby the lender agreed to accept $495,000 in full satisfaction of all principal and interest due under the Note agreements, as of June 1, 2012, plus interest in the amount of approximately $21,000 for the period from June 1, 2012 to July 31, 2012. In addition, the Company agreed to pay interest for the period after July 31, 2012 in the aggregate amount of approximately $67,000. The note and all outstanding interest were paid in full in February 2013.

During March 2012, the Company converted $3,576,515 in principal and interest on debt held by certain lenders of short and long term notes, including certain directors and significant shareholders of the Company, into 23,843,429 shares of the Company's common stock at a price of $0.15 per share.

During March 2012, the Company converted $264,800 of accrued Series B dividends owed to certain holders of the Company's Series B Preferred Stock, including certain directors and significant shareholders of the Company, into 1,765,333 shares of the Company's common stock at a price of $0.15 per share.

Although the Company has incurred an operating loss of approximately $3,206,000 for the year ended December 31, 2013, and has a history of operating losses, management believes that its repositioned strategy of leading with its

Discovery product to measure how work happens and then follow with its integration capabilities through its XM product will shorten the sales cycle and allow for value based selling to our customers and prospects. The Company anticipates a continued success in this regard based upon current discussions with active customers and prospects. The Company has also retired approximately $1,900,000 and $416,000 of debt in 2012 and 2013, respectively. Additionally, the Company converted $3,800,000 of debt into common stock and has received notification of additional forgiveness of liabilities of $404,000 during 2012. 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. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The 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.

SOAdesk Transaction

On January 15, 2010, the Company entered into an Asset Purchase Agreement with SOAdesk, LLC ("SOAdesk") and Vertical Thought, Inc. ("VTI" and, together with SOAdesk, the "Sellers"), pursuant to which the Company acquired the Sellers' "United Desktop" and "United Data Model" software technology, as well as substantially all of the other assets owned by the Sellers directly or indirectly used (or intended to be used) in or related to Sellers' business of providing customer interaction consulting and technology services for organizations and contact centers throughout the world (the "Business"). The Company also assumed certain liabilities of the Sellers related to the Business, as described in the Asset Purchase Agreement.

The aggregate consideration payable by the Company to the Sellers consisted of the following:

$300,000 paid in cash to the Sellers on the closing date;

an unsecured convertible note in the aggregate principal amount of $700,000, payable to SOAdesk, with an annual interest rate of 5% and an original maturity date of March 31, 2010. On March 31, 2010, the maturity date of the unsecured Convertible Note was extended from March 31, 2010 to September 30, 2010 and was secured by shares of the Company's Series B Preferred Stock (the "Convertible Note"). At September 30, 2010, the maturity date was extended from September 30, 2010 to March 31, 2011. Through a series of amendments, the maturity date was extended to April 1, 2013. In March 2014, the maturity date was further extended to June 30, 2015;

$525,000, payable in cash to SOAdesk on March 31, 2010 (subsequently converted into a convertible promissory note as stated below);

an unsecured convertible note in the aggregate principal amount of $1,000,000, due in January 2015, payable to SOAdesk and convertible into shares of the Company's Common Stock. In March 2012, SOAdesk elected to convert $300,000 of the outstanding note balance into 2,000,000 shares of Company's Common Stock. At December 31, 2013 the Company was indebted to SOAdesk under this note in the amount of $700,000 in principal and $172,000 in interest; and

certain earn-out contingencies of $2,410,000 based on product and enterprise revenue performance targets being met.

The terms of the Asset Purchase Agreement were amended on March 31, 2010, and the Company issued a $525,000 convertible promissory note to SOAdesk in lieu of the $525,000 payment. This note, carried an annual interest rate of 5%, was convertible into shares of the Company's Series B Preferred Stock at the holder's option and originally matured on June 30, 2010. The Company paid principal in the amount of $100,000 in April 2010. On June 30, 2010, the convertible note was amended to extend the maturity date from June 30, 2010 to September 30, 2010. As of September 30, 2010, the convertible note was further amended to extend the maturity date from September 30, 2010 to March 31, 2011. The Company paid principal in the amount of $4,000 in May 2011. In March 2011, the Company and SOAdesk LLC agreed to extend the maturity date until March 31, 2012 and the Company issued a five-year warrant to SOAdesk to purchase up to 100,000 shares of its common stock at an exercise price of $0.08 per share. In accordance with ASC 470-20 "Debt with Conversion and Other Options", the Company determined the embedded conversion option is beneficial and has intrinsic value to the holder. The total debt discount to be recognized was $175,000 and the Company had reduced the note by that amount and increased Additional Paid in Capital by the same amount. As of December 31, 2010, the Company had fully amortized the debt discount of $175,000 in the statement of operations. In April 2012, the Company paid this note in full.

The Company was obligated to make additional 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. Such payments are payable quarterly during the eighteen month period over which the performance targets are being measured. The earn-out award is to be calculated, subject to adjustment, based upon the cumulative effect of achieved revenue performance targets during the applicable earn-out period. The obligation was determined by management after consultation with an independent appraiser using the income approach methodology analyzing the Company's discounted cash flow and management's input on probability of attaining the different revenue performance targets. As of March 31, 2011, the Company had determined that the earn-out targets originally recorded as part of the acquisition will not be completely met. The Company has therefore recorded a gain of $517,000 in the first quarter of 2011, in addition to the $1,050,000 gain recorded in the fourth quarter of 2010, in the statement of operations from the reversal of part of the earn-out accrual. The earn-out earned through July 31, 2011 of $843,000 is included in the accounts payable balance at December 31, 2013 and 2012, respectively.

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 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 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 accounts receivable and expenses during the period reported. We are also required to disclose amounts of contingent assets and liabilities at the date of the 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 financial statements to be those surrounding: (1) revenue recognition; (2) allowance for doubtful trade accounts receivable; (3) goodwill; (4) capitalization and valuation of software product technology; and (5) valuation of deferred tax assets. These accounting policies, the basis for any estimates and potential impact to our Consolidated Financial Statements, should any of the estimates change, are further described as follows:

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

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

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

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

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

Capitalization and Valuation of Software Product Technology. Our policy on capitalized software costs determines the timing of our recognition of certain development costs. In addition, this policy determines whether the cost is classified as development expense or cost of software revenue. Management is required to use professional judgment in determining whether development costs meet the criteria for immediate expense or capitalization. Additionally, we review software product technology assets for net realizable value at each balance sheet date. Should we experience reductions in revenues because our business or market conditions vary from our current expectations, we may not be able to realize the carrying value of these assets and will record a write down at that time.

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, 2013, we had a valuation allowance of $63,448,000 against $63,448,000 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, 2013, the Company has net operating loss carryforwards of approximately $154,858,000 which may be applied against future taxable income. These carryforwards will expire at various times between 2014 and 2033.

Recent Accounting Pronouncements:

None applicable.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 8. 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

In May 2012, the Company dismissed its principal independent accountant, Marcum LLP (“Marcum”). The dismissal was approved by the Audit Committee of the Company’s Board of Directors.

Marcum was the Company’s principal independent accountant and reported on the Company’s financial statements for the fiscal year ended December 31, 2011. During 2011, and subsequently up to the date of dismissal, there were no disagreements between the Company and Marcum on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements that, if not resolved to Marcum’s satisfaction, would have caused Marcum to make reference to the subject matter of the disagreement in connection with its report issued in connection with the audit of the Company’s financial statements.

None of the reportable events described under Item 304(a)(1)(v)(A)-(D) of Regulation S-K occurred within the Company’s 2011 fiscal year nor subsequently up to the date of dismissal, except as set forth in the following sentence. In connection with the audit of the Company’s December 31, 2011 financial statements, Marcum advised the Company of a material weakness in its internal control over financial reporting, in that the Company did not independently account for a significant, complex, and non-routine transaction as of December 31, 2011. However, the transaction has been properly disclosed in the consolidated financial statements filed with the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

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Marcum's audit report on financial statements for the fiscal year ended December 31, 2011 of the Company contained no adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles.

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, 2013. 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, 2013, 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 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 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 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 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 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, 2013.

(d) Changes in Internal Control over Financial Reporting

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

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

Name	Age	Position(s)
John L Steffens	72	Director and Chairman
John Broderick	64	Director and Chief Executive Officer/Chief Financial Officer
Antony Castagno	46	Director and Chief Technology Officer
Mark Landis	72	Director
Bruce W. Hasenyager	72	Director
Jay R. Kingley	53	Director
Charles B. Porciello	78	Director
Bruce D. Miller	63	Director
John W. Atherton	71	Director
Don Peppers	63	Director

John L. Steffens
Director since May, 2007.

Mr. Steffens was appointed to our Board of Directors on May 16, 2007 and is the Founder and Managing Director of Spring Mountain Capital, L. P. Prior to establishing Spring Mountain Capital, Mr. Steffens spent 38 years at Merrill Lynch & Co., where he held numerous senior management positions, including President of Merrill Lynch Consumer Markets, which was later named the Private Client Group, from July 1985 until April 1997, and both Vice Chairman of Merrill Lynch & Co., Inc. (the parent company) and Chairman of its U.S. Private Client Group from April 1997 until July 2001. Mr. Steffens was elected a member of the Board of Directors of Merrill Lynch & Co., Inc. in April 1986 and served on the board until July 2001. Mr. Steffens was Chairman of the Securities Industry Association during 1994 and 1995, and is currently a Trustee of the Committee for Economic Development. He is the National Chairman Emeritus of the Alliance for Aging Research and serves on the Board of Aozora Bank in Japan. Mr. Steffens graduated from Dartmouth University in 1963 with a B.A. degree in Economics. He also attended the Advanced Management Program of the Harvard Business School in 1979. We believe Mr. Steffen's qualifications to serve on our 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. in accounting from Villanova University. We believe Mr. Broderick's qualifications to serve on our Board of Directors include his intimate knowledge of our operations as a result of day to day leadership as our Chief Executive Officer.

Antony Castagno
Director since March 2010.

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

Mark Landis
Director since July 2005.

Mr. Landis has been a director of the Company since July 2005. Mr. Landis is the Managing Member of Catalyst Partners, a family investment vehicle created in 1995. From 2003 to 2005 he was Executive in Residence of The Jordan Company, a private equity firm based in New York City. In 2003 Mr. Landis retired from being President of the North American Security Division of Siemens Building Technologies, Inc., (SBT) having been Chief Executive Officer of Security Technologies Group, Inc. (STG) which was acquired by Siemens in 2001. Mr. Landis earned his B.A. from Cornell University and his Jurist Doctorate from the University of Pennsylvania. Mr. Landis received his CPCU - Chartered Property and Casualty Underwriter 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.

Bruce W. Hasenyager
Director since October 2002.

Mr. Hasenyager has been a director of the Company since October 2002. Since November 2004, Mr. Hasenyager has served as Principal of Bergen & Webster Executive Communications. Prior to that, he served as Director of Business and Technology Development at the Hart eCenter at Southern Methodist University (SMU) and Chief Operating Officer of the Guildhall at SMU. From April 1996 to April 2002, Mr. Hasenyager was a founder and served as Senior Vice President of Technology and Operations and Chief Technology Officer at MobilStar Network Corporation. Prior to April 1996, Mr. Hasenyager held executive and senior management positions in information technology at Chemical Bank, Merrill Lynch, Kidder Peabody, and Citibank. We believe Mr. Hasenyager's qualifications to serve on our Board of Directors include his many years of industry experience.

Jay R. Kingley
Director since November 2002.

Mr. Kingley has been a director of the Company since November 2002. Mr. Kingley is currently the Chief Executive Officer of Innocution Partners, LLC, a consultancy that focuses on helping companies monetize creativity through innovation and disciplined execution and Chairman of Kingley Institute LLC, a medical wellness company. Prior to that, Mr. Kingley has served as CEO of Warren Partners, LLC, a software development and consultancy company. Mr. Kingley was Managing Director of a business development function of Zurich Financial Services Group from 1999-2001. Prior to joining Zurich Financial Services Group, Mr. Kingley was Vice President of Diamond Technology Partners, Inc., a management-consulting firm. We believe Mr. Kingley's qualifications to serve on our Board of Directors include his experience as Chief Executive Officer of a software development and consultancy company.

Charles B. Porciello
Director since June 2005.

Mr. Porciello has been a director since June 6, 2005. From 2003 until 2011, Mr. Porciello had been the Chief Executive Officer of Pilar Services, Inc. From 2001 until 2003, he served as Chief Operating Officer of Enterprise Integration Corporation, a minority-owned IT services company. Prior to that Mr. Porciello worked for various IT companies, developing and facilitating in their growth. Mr. Porciello retired from the U.S. Air Force in 1982 after serving his country for twenty five years. Mr. Porciello graduated from the U.S. Military Academy with a B.S. in Engineering and received his Master's Degree in Management from the University of Nebraska. We believe Mr. Porciello's qualifications to serve on our Board of Directors include his experience as Chief Operating Officer of an IT service company and his many years of experience in the industry.

Bruce D. Miller
Director since July 2005.

Mr. Miller has been a director of the Company since July 2005. Mr. Miller has been a General Partner of Delphi Partners, Ltd. a privately-owned investment partnership since 1989. He is the treasurer and a director of American Season Corporation. Mr. Miller is a board member of Cape Air/Nantucket Airlines, Inc. Mr. Miller is a trustee of the Egan Maritime Foundation and is involved in other non-profit activities. Mr. Miller received his B.S. in Finance from Lehigh University and subsequently earned an M.B.A. from Lehigh. We believe Mr. Miller's qualifications to serve on our Board of Directors include his experience as General Partner of a privately owned investment partnership.

John W. Atherton
Director since May 2006.

Mr. Atherton has been a director since May 12, 2006. Since 2005, Mr. Atherton has been the Vice President and Chief Financial Officer of CityFed Financial, a financial holding company, based in Nantucket, Massachusetts. He served as Chairman of CityFed Financial from 1991 until 2005. Mr. Atherton received his B.A. degree from Wesleyan University (Middletown, Connecticut) and an M.B.A. with Distinction from Babson College (Wellesley, Massachusetts). We believe Mr. Atherton's qualifications to serve on our Board of Directors include his experience as Chief Financial Officer and Chairman of a financial holding company.

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 ten 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.From October 1990 to January 1992, Mr. Peppers was the Chief Executive Officer of Perkins/Butler Direct Marketing, a top-20 U.S.-direct-marketing agency. Prior to marketing and advertising, he worked as an economist in the oil business and as the director of accounting for a regional airline. Mr. Peppers holds a Bachelor's Degree in astronautical engineering from the U.S. Air Force Academy, and a Master's Degree in public affairs from Princeton University's Woodrow Wilson School. We believe Mr. Pepper's qualifications to serve on our Board of Directors include his years of experience providing strategic advisory services to organizations.

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

Audit Committee

The Audit Committee is composed of Mr. Bruce Miller, Mr. Bruce Hasenyager and Mr. John W. Atherton. 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, 2013. Each member attended every meeting while they were appointed to the Audit Committee. The Board of Directors has determined that the members of the Audit Committee are independent as defined in Rule 5605(a)(2) of The NASDAQ Stock Market's listing standards. Mr. John W. Atherton was designated the "audit committee financial expert" as defined in Item 407(d)(5) of Regulation S-K due to his experience as a Chief Financial Officer of a public company.

Code of Ethics and Conduct

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Item 11. Executive Compensation.

Compensation Committee Membership and Organization

The Compensation Committee of the Board of Directors has responsibility for establishing, implementing and monitoring adherence with the Company's compensation philosophy. Its duties include:

- Setting the total compensation of our Chief Executive Officer and evaluating his performance based on corporate goals and objectives;

- Reviewing and approving the Chief Executive Officer's decisions relevant to the total compensation of the Company's other executive officer;

- Making recommendations to the Board of Directors with respect to equity-based plans in order to allow us to attract and retain qualified personnel; and

- Reviewing director compensation levels and practices, and recommending, from time to time, changes in such compensation levels and practices of the Board of Directors.

The members of the Compensation Committee are Messrs. Kingley and Porciello. None of the current members of the Compensation Committee has served as an executive officer of the Company, and no executive officer of the Company has served as a member of the Compensation Committee of any other entity of which Messrs. Kingley and Porciello have served as executive officers. Mr. Porciello is the former Chief Executive Officer of Pilar Services Inc., a reseller partner. We recognized no revenue with Pilar Services Inc. during 2013 and 2012. There were no interlocking relationships between us and other entities that might affect the determination of the compensation of the directors and executive officers of the Company. The Compensation Committee meets on an as necessary basis during the year.

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. The Compensation Committee's 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. The Compensation Committee strongly believes 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, the Compensation Committee believes 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

The Compensation Committee of 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 Compensation Committee, and makes recommendations, regarding the compensation of all executive officers other than himself. He does not participate in the Compensation Committee's deliberations regarding his own compensation. In determining the compensation of our executive officers, the Compensation Committee 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 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 Compensation Committee 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 2013.

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 closely correlate to stockholder value. We believe that these metrics also correlate to stockholder value and individual performance. Our Chief Executive Officer achieved a non-equity bonus of $25,000 in fiscal 2013 and 2012 and our Chief Technology Officer achieved a non-equity bonus of $45,372 in 2013.

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 2014.

Long-Term Equity Incentive Awards

The Company presently has one equity-based compensation plan under which grants may be made, entitled Cicero Inc. 2007 Employee Stock Option Plan. The Plan provides for the grant of incentive and non-qualified stock options to employees, and the grant of non-qualified options to consultants and to directors and advisory board members. In addition, various other types of stock-based awards, such a stock appreciation rights, may be granted under the Plan. The Plan is administered by the Compensation Committee of our Board of Directors, which determines the individuals eligible to receive options or other awards under the Plan, the terms and conditions of those awards, the applicable vesting schedule, the option price and term for any granted options, and all other terms and conditions governing the option grants and other awards made under the Plan. Under the 2007 Plan, 4,500,000 shares of our common stock were reserved for issuance pursuant to options or restricted stock awards; at December 31, 2013, 1,111,090 shares were available for future option grants and awards. The Company's previous equity-based compensation plan, entitled Level 8 Systems 1997 Employee Stock Option Plan, expired during fiscal 2007. There are 6,100 options outstanding under that plan.

To date, awards have been mainly in the form of non-qualified stock options granted under the Plans. The Compensation Committee 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 Compensation Committee so determines. The Compensation Committee 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 Compensation Committee 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 2013, the Company granted options to purchase 25,000 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 year 2013 and 2012.

Summary Compensation Table

Name and Principal Position	Fiscal Year		Salary	Stock Awards (1)		Non- Equity Incentive Plan Compensation (2)		All Other Compensation (3)		Total
John P. Broderick	2013	$	175,000	--	$	25,000	$	5,627	$	205,627
Chief Executive Officer,	2012	$	175,000	75,000	$	25,000	$	6,462	$	281,462
Chief Financial Officer,										
Corporate Secretary										
Antony Castagno	2013	$	150,000	--	$	45,372	$	6,289	$	201,661
Chief Technology Officer	2012	$	150,000	--		--	$	5,792	$	155,792

(1) In November 2012, the Company issued Mr. Broderick a restricted stock award in the amount of 1,500,000 shares which will vest to him upon termination or a change of control. The Company valued the restricted stock award at the fair market value on the date of the award and is amortizing the total expense of $75,000 over the assumed life of two years.

(2) Non-equity incentive plan compensation for Mr. Broderick includes a bonus for certain revenue transactions earned during fiscal year ended December 31, 2013 and 2012. The revenue transaction was the acceptance of the first contract greater than $300,000 for each fiscal year. Non-equity incentive plan compensation for Mr. Castagno includes a bonus for any revenues in excess of his base salary when engaged in consulting services on behalf of the Company.

(3)

Other compensation includes the Company's portion of major medical insurance premiums and long term disability premiums for named executives during fiscal year ended December 31, 2013 and 2012, respectively.

Grants of Plan Based Awards

The Company did not award any stock options to the named executives during fiscal 2013 and 2012. The Company did not award any stock appreciation rights ("SARs") during fiscal 2013 and 2012.

The following table presents the number and values of exercisable options as of December 31, 2013 by the named executive.

Outstanding Equity Awards at December 31, 2013

	Option Awards						Stock Awards		
Name	Number of Securities Underlying Unexercised Options # Exercisable (Vested)		Number of Securities Underlying Unexercised Unearned Options# Unexercisable (Unvested)	Option Exercise price ($)	Option Expiration date	Number of Shares of Stock That Have Not Vested		Market Value of Shares of Stock That Have Not Vested
John P. Broderick	5,000	(1)	--	$31.00	02/18/2014			
	549,360	(2)	--	$0.51	08/17/2017			
	75,000	(3)	--	$0.09	08/20/2020			
						549,630	(4)	$10,993
						1,500,000	(5)	$30,000
Antony Castagno	75,000	(3)	--	$0.09	08/20/2020			

(1) These options were granted on February 18, 2004. This stock option vested and became exercisable in three equal annual installments with the first installment vesting on February 18, 2004.

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

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

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

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

Options Exercised and Stock Vested

The named executives did not exercise any options during the year ended December 31, 2013. Mr. Broderick and Mr. Castagno have 629,360 and 75,000 outstanding options respectively at December 31, 2013.

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

Under the employment agreement between the Company and Mr. Broderick effective January 1, 2014, 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 Compensation Committee, in its discretion. Upon termination of Mr. Broderick's employment by the Company without cause, we agreed to pay Mr. Broderick a lump sum payment of one year of Mr. Broderick's then current base salary within 30 days of termination and any unpaid deferred salaries and bonuses. In the event there occurs a substantial change in Mr. Broderick's job duties, there is a decrease in or failure to provide the compensation or vested benefits under the employment agreement or there is a change in control of the Company, we agreed to pay Mr. Broderick a lump sum payment of one year of Mr. Broderick's then current base salary within thirty (30) days of termination. Additionally, as part of his employment agreement for fiscal 2012, Mr. Broderick will be entitled to receive 1,500,000 shares of the Company's common stock in the event of the termination, with or without cause, of his employment by the Company or his resignation from the Company with or without cause or in the event of a change of control (as that term is defined in the Employment Agreement) of the Company. Mr. Broderick will have thirty (30) days from the date written notice is given about either a change in his duties or the announcement and closing of a transaction resulting in a change in control of the Company to resign and execute his rights under this agreement. If Mr. Broderick's employment is terminated for any reason, Mr. Broderick has agreed that, for two (2) year after such termination, he will not directly or indirectly solicit or divert business from us or assist any business in attempting to do so or solicit or hire any person who was our employee during the term of his employment agreement or assist any business in attempting to do so.

Under the employment agreement between the Company and Mr. Castagno effective January 1, 2013, 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. During 2013 the Company amended Mr. Castagno's employment agreement to provide that Mr. Castagno could engage in consulting services on behalf of the Company and would be compensated for any revenues in excess of his base salary as a bonus.

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 assume a termination date of December 31, 2013. 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 2013 and 2012 and accrued salaries for fiscal 2013 that had not been paid in fiscal 2013.

		Base Salary	Restricted Shares Award	Deferred Compensation	Total Compensation and Benefits
John P. Broderick					
Death		$--	$40,993	$ 44,792	$ 85,785
Disability		--	40,993	44,792	85,785
Involuntary termination	without cause	175,000	40,993	44,792	260,785
Change in Control		175,000	40,993	44,792	260,785
Antony Castagno					
Death		$--	$--	$ 36,987	$ 36,987
Disability		--	--	36,987	36,987
Involuntary termination	without cause	75,000	--	36,987	111,987
Change in Control		--	--	36,987	111,987

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. During fiscal 2013, the Company granted options to purchase 25,000 shares to its employees; however no grants were awarded to our named executive officers during fiscal 2013 and 2012.

Director Compensation

No cash or non-cash compensation was paid during fiscal 2013 by us to our non-employee directors who served during fiscal 2013.

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

The following table sets forth information as of February 28, 2014 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 85,806,247 common shares, 1,541.618 Series A1 preferred shares and 10,400 Series B preferred shares outstanding as of February 28, 2014. 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 A1 Shares	% of Class		No. of Series B Shares	% of Class		% of Combined Classes	
John L. Steffens (1)	35,518,814	39.9	%	14.832	1.0	%	6,400.00	61.5	%	43.9	% (2)
Jonathan Gallen (3)	9,699,840	11.2	%	--	*		1,667.00	16.0	%	12.9	% (4)
Mark and Carolyn P. Landis (5)	3,783,717	4.4	%	1,326.136	86.0	%	--	*		5.9	% (6)
SOAdesk LLC	5,357,713	6.2	%	--	*		5,811.32	35.8	%	12.2	% (7)
Bruce Miller	2,892,655	3.4	%	--	*		--	*		3.4	% (8)
Don Peppers	2,127,512	2.5	%	--	*		1,333.33	12.8	%	3.9	% (9)
John P. Broderick	2,681,968	3.0	%	--	*		--	*		3.0	% (10)
John W. Atherton	166,784	*		--	*		--	*		*	(11)
Bruce W. Hasenyager	50,652	*		--	*		--	*		*	(12)
Charles Porciello	98,286	*		--	*		--	*		*	(13)
Antony Castagno	75,000	*		--	*		--	*		*	(14)
Jay R. Kingley	19,000	*		--	*		--	*		*	(15)
Scott Lustgarten	1,643,934	1.9	%	--	*		1,000.00	9.6	%	3.0	(16)
All current directors and executive officers as a group (10 persons)	47,414,388	51.2	%	1,340.968	87.0	%	7,733.33	74.4	%	55.6	%(17)

* Represents less than one percent of the outstanding shares.

1. The address of John L. Steffens is 65 East 55th Street, New York, N.Y. 10022.

2. Includes 32,262,529 shares of common stock, 14,832 common shares issuable upon conversion of the Series A-1 Convertible Preferred Stock, 6,400,000 common shares issuable upon conversion of the Series B Convertible Preferred Stock, and 3,238,285 shares issuable upon the exercise of warrants and 18,000 shares subject to stock options.

3. The address of Mr. Gallen is 299 Park Avenue New York, New York 10171.

4. Ahab Partner, L.P. (“Partners”), Ahab International, Ltd. (“International”), Queequeg Partners, L.P. (“Queequeg”) and Queequeg, Ltd. (“Limited,” and collectively with Partners, International and Queequeg, the “Funds”) held in aggregate 9,283,173 shares of common stock, 1,667,000 common shares issuable upon conversion of the Series B Convertible Preferred Stock and warrants to acquire 416,667 shares of common stock. Jonathan Gallen possesses the sole power to vote and the sole power to direct the disposition of all securities of the Company held by the Funds. In addition, Jonathan Gallen held the power to direct the disposition of 100,000 shares of common stock held in private investment account. Accordingly, for the purposes of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, Mr. Gallen may be deemed to beneficially own 11,366,840 shares of common stock of the Company.

5. The address of Mark and Carolyn P. Landis is 503 Lake Drive, Princeton, New Jersey 08540.

6. Includes 3,771,717 shares of common stock, 1,326,136 common shares issuable upon conversion of the Series A-1 Convertible Preferred Stock and 12,000 shares subject to stock options.

7. Includes 2,000,000 shares of common stock, 3,257,713 shares of common stock issuable upon conversion of one-half of the principal and accumulated interest of a $700,000 convertible promissory note and 5,811,320 common shares issuable upon the conversion of the Series B Convertible Preferred Stock issuable upon conversion of a convertible promissory note in the principal amount of $700,000 and accumulated interest of $172,000.

8. Consists of 2,774,655 shares of common stock, 18,000 shares subject to stock options and warrants to acquire 100,000 shares of common stock. Mr. Miller has sole or shared voting or dispositive power with respect to the securities held by Delphi Partners, Ltd., which holds 509,267 shares of common.

9. Includes 1,582,179 shares of common stock and 1,333,333 common shares issuable upon conversion of the Series B Convertible Preferred Stock, warrants to acquire 533,333 shares of common stock and 12,000 shares subject to stock options.

10. Includes 3,248 shares of common stock. 629,360 shares subject to stock options exercisable within sixty (60) days and 2,049,360 shares of restricted stock that is awarded upon termination or change of control.

11. Includes 148,784 shares of common stock, and 100 shares of common stock held in a self-directed IRA and 18,000 shares subject to stock options.

12. Consists of 32,652 shares of common stock and 18,000 shares subject to stock options.

13. Consists of 80,286 shares of common stock and 18,000 shares subject to stock options.

14. Consists of 75,000 shares subject to stock options.

15. Consists of 1,000 shares of common stock and 18,000 shares subject to stock options.

16. Includes 1,634,934 shares of common stock and 1,000,000 common shares issuable upon conversion of the Series B Convertible Preferred Stock, warrants to acquire 450,000 shares of common stock.

17. Includes shares issuable upon conversion of shares of preferred stock and exercise of options and warrants as described in above Notes for each director and officer.

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

Loans from Related Parties

From time to time during 2012 through 2013, the Company entered into several short term notes payable with John L. (Launny) Steffens, the Chairman of the Board of Directors, for various working capital needs. The notes bear interest at 12% per year and are unsecured. In December 2012, Mr. Steffens converted $300,000 of his debt into a subscription of 6,000,000 shares of the Company's common stock at a price of $0.05 per share as part of a private investment in the Company's stock. At December 31, 2012, the Company was indebted to Mr. Steffens in the approximate amount of $1,773,000 of principal and $148,000 in interest. In March 2013, Mr. Steffens agreed to extend the maturity date of all outstanding short term notes until April 1, 2014. At December 31, 2013, the Company was indebted to Mr. Steffens in the approximate amount of $4,398,000 of principal and $505,000 in interest. In March 2014, Mr. Steffens agreed to extend the maturity date of all outstanding short term notes until April 1, 2015.

During 2012 and 2013, the Company entered into several short term notes payable with John Broderick, the Chief Executive Office and Chief Financial Officer, for various working capital needs. The notes bear interest at 12% and were unsecured. At December 31, 2013, the Company was indebted to Mr. Broderick in the approximate amount of $6,000 in principal and $428 in interest. No interest was paid in fiscal 2013.

Antony Castagno, the Company's Chief Technology Officer, is part-owner of SOAdesk LLC. For a description of the transactions between the Company and SOAdesk, see Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – SOAdesk Transaction. During 2013, the Company entered into a short term note payable with Mr. Castagno for various working capital needs. The note was non-interest bearing and was unsecured. At December 31, 2013, the Company was indebted to Mr. Castagno in the approximate amount of $15,000.

Director Independence

Our board of directors currently consists of ten members. They are John L. Steffens, John P. Broderick, Antony Castagno, Mark Landis, Bruce Hasenyager, Jay Kingley, Bruce D. Miller, Charles Porciello, John W. Atherton, 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 and Mr. Castagno is the Company's Chief Technology 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 American Stock Exchange, which can be found in the NYSE Amex Company Guide, §803(A)(2). Under such definition, Messrs. Steffens, Landis, Hasenyager, Kingley, Miller, Porciello, Atherton and Peppers are independent directors.

Item 14. Principal Accountant Fees and Services

Independent Registered Public Accounting Firm

Cherry Bekaert LLP audited our financial statements for the year ended December 31, 2013 and 2012.

Audit Fees

Audit fees include fees for the audit of the Company's annual financial statements, fees for the review of the Company's interim 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 financial statements for fiscal year 2013 and 2012 (and reviews of quarterly financial statements on Form 10-Q) were $78,750 and $79,000, 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 financial statements. There were no audit-related fees billed by Cherry Bekaert LLP for fiscal year 2013 and audit-related fees billed by Cherry Bekaert LLP for fiscal year 2012 of approximately $4,000.

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 2013 and 2012.

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 year 2013 and 2012.

Determination of Auditor Independence

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

Audit Committee's Pre-Approval Policies

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

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(A) Financial Statements

The following financial statements of the Company and the related reports of Independent Registered Public Accounting Firms thereon are set forth immediately following the Index of 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, 2013 and 2012

Consolidated Statements of Operations for the years ended December 31, 2013 and 2012

Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2013 and 2012

Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012

Notes to Consolidated Financial Statements

(B) Financial Statement Schedules

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

(C) Exhibits

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

Exhibit Index

Exhibit Number	Description
3.1	Certificate of Incorporation of Level 8 Systems, Inc., a Delaware corporation, as amended and restated December 29, 2006 (incorporated by reference to exhibit 3.1 to Level 8's Form 8-K filed January 17, 2007).
3.2	Certificate of Designation relating to Series A1 Convertible Redeemable Preferred Stock (incorporated by reference to exhibit 3.2 to Level 8's Form 8-K filed January 17, 2007).
3.3	Certificate of Incorporation of Level 8 Systems, Inc., a Delaware corporation, as amended August 4, 2003 (incorporated by reference to exhibit 3.1 to Level 8's Form 10-K filed March 31, 2004).
3.4	Bylaws of Level 8 Systems, Inc., a Delaware corporation (incorporated by reference to exhibit 3.2 to Level 8's Form 10-K filed April 2, 2002).
3.5	Certificate of Designation relating to Series B Convertible Redeemable Preferred Stock (incorporated by reference to exhibit 3.1 to Level 8's Form 8-K filed January 20, 2010).
4.1	Form of Long term Promissory Note Stock Purchase Warrant (incorporated by reference to exhibit 4.19 to Cicero Inc.'s Form 10-K filed March 31, 2008).
4.2	Form of Long term Promissory Note Stock Purchase Warrant (incorporated by reference to exhibit 4.17 to Cicero Inc.'s Form 10-K filed March 31, 2009).
4.3	Form of Amended Long term Promissory Note Stock Purchase Warrant (incorporated by reference to exhibit 4.3 to Cicero Inc.'s Form 10-K filed March 31, 2011).
4.4	Form of Investor Warrant Agreement (filed herewith)
10.2	Amended PCA Shell License Agreement, dated as of January 3, 2002, between Level 8 Systems, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.2 to Level 8's Form 8-K, filed January 11, 2002).
10.3A	PCA Shell License Agreement between Level 8 Systems, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.2 to Level 8's Report on Form 8-K, filed September 11, 2000).
10.3B	

	OEM License Agreement between Cicero Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.12A to Cicero Inc.'s Form 10-K filed March 31, 2008).
10.3C	Software Support and Maintenance Schedule between Cicero Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.12A to Cicero Inc.'s Form 10-K filed March 31, 2008).
10.6	Level 8 Systems Inc. 1997 Stock Option Plan, as Amended and Restated (incorporated by reference to exhibit 10.2 to Level 8's Registration Statement on Form S-1/A, filed September 22, 2000, File No. 333-44588).*
10.7A	Fifth Amendment to Level 8 Systems Inc. 1997 Stock Option Plan (incorporated by reference to exhibit 10.9A to Level 8's Form 10-K filed April 2, 2002).*
10.8B	Seventh Amendment to Level 8 Systems Inc. 1997 Stock Option Plan (incorporated by reference to exhibit 10.14 B to Level 8's Form 10-K, filed March 31, 2004).*
10.1	Cicero Inc. 2007 Employee Stock Option Plan (incorporated by reference to exhibit 10.22 to Cicero Inc.'s Form 10-K filed March 31, 2008).
10.11	Agreement and Promissory Note of Cicero Inc., dated October 30, 2007 among Cicero Inc. and BluePhoenix Solutions Ltd. (incorporated by reference to exhibit 10.23 to Cicero Inc.'s Form 10-K filed March 31, 2008).
10.12	Promissory Note of Cicero Inc., dated October 29, 2007 among Cicero Inc. and John L. Steffens (incorporated by reference to exhibit 10.24 to Cicero Inc.'s Form 10-K filed March 31, 2008).
10.15	Revolving Loan Agreement dated November 3, 2008 among Cicero Inc. and Barbara Sivan (incorporated by reference to exhibit 10.15 to Cicero Inc., Form 10-K filed March 31, 2009).
10.16	Employment Agreement between John P. Broderick and the Company effective January 1, 2012 (incorporated by reference to exhibit 10.16 to Cicero Inc., Form 10-K filed April 16, 2012).

10.17	Form of Long Term Promissory Note dated March 31, 2009 (incorporated by reference to exhibit 10.17 to Cicero Inc., Form 10-K filed March 31, 2009).
10.18	Employment Agreement between Antony Castagno and the Company effective January 1, 2012 (incorporated by reference to exhibit 10.16 to Cicero Inc., Form 10-K filed April 16, 2012).*
10.19	Asset Purchase Agreement dated January 15, 2010 between Cicero Inc., Vertical Thought Inc., and SOAdesk LLC (incorporated by reference to exhibit 2.1 to Cicero's Form 8-K filed January 20, 2010).
10.2	Amendment No. 1 to the Purchase Agreement dated January 15, 2010 between Cicero Inc., Vertical Thought Inc., and SOADesk LLC (incorporated by reference to exhibit 2.1 to Cicero's Form 8-K/A filed April 2, 2010).
10.21	Registration Rights Agreement, dated as of January 15, 2010, by and among Cicero Inc. and the Purchasers thereto (incorporated by reference to exhibit 4.4 to Cicero Inc.'s Form 8-K filed January 20, 2010)
10.22	Form of Short Term Secured Promissory Note of Cicero Inc. among Cicero Inc. and John Broderick (filed herewith).
10.23	Source Code License Agreement between Cicero Inc. and Convergys Customer Management Group Inc. (incorporated by reference to exhibit 10.16 to Cicero Inc., Form 10-K filed April 16, 2012).
10.9	Lease Agreement for Cary, N.C. offices, dated July 21, 2010, between Cicero Inc. and Regency Park Corporation (incorporated by reference to exhibit 10.9 to Cicero Inc.'s Form 10-K filed March 31, 2011).
10.24	Form of Short Term Promissory Note of Cicero Inc. among Cicero Inc. and John L. Steffens (incorporated by reference to exhibit 10.16 to Cicero Inc., Form 10-K filed April 16, 2012).
10.25	Form of Short Term Promissory Note of Cicero Inc. among Cicero Inc. and Antony Castagno (filed herewith).
10.26	Amended Employment Agreement between John P. Broderick and the Company effective January 1, 2012 (incorporated by reference to exhibit 10.26 to Cicero Inc., Form 10-K filed April 15, 2013)
10.27	Registration Rights Agreement, dated as of March 20, 2013, by and among Cicero Inc. and the Purchasers thereto (filed herewith)
10.28	Form of Securities Purchase Agreement by and among Cicero, Inc. and the Purchasers thereto (filed herewith)
10.29	Amended Employment Agreement between Antony Castagno and the Company effective July 3, 2013 (filed herewith)
14.1	Code of Ethics (incorporated by reference to exhibit 14.1 to Level 8's Form 10-K/A, filed March 31, 2004).
21.1	List of subsidiaries of the Company (filed herewith).
23.1	Consent of Cherry Bekaert LLP (filed herewith).

31.1	Certification of Chief Executive pursuant to Rule 13a-14(a) (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).
32.1	Certification of John P. Broderick pursuant to 18 USC § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* Management contract or compensatory agreement.

SIGNATURES

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

CICERO INC.

By: /s/ John P. Broderick
John P. Broderick
Chief Executive Officer and Chief Financial Officer
Date: March 31, 2014

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

Signature	Title	Date
/s/John L. Steffens John L. Steffens	Chairman of the Board	March 31, 2014
/s/ John P. Broderick John P. Broderick	Chief Executive Officer/Chief Financial Officer (Principal Executive and Financial and Accounting Officer)	March 31, 2014
/s/ Antony Castagno Antony Castagno	Chief Technology Officer	March 31, 2014
/s/ Mark Landis Mark Landis	Director	March 31, 2014
/s/ Bruce Hasenyager Bruce Hasenyager	Director	March 31, 2014
/s/ Jay Kingley Jay Kingley	Director	March 31, 2014
/s/ Bruce D. Miller Bruce D. Miller	Director	March 31, 2014
/s/ Charles Porciello Charles Porciello	Director	March 31, 2014
/s/ John W. Atherton John W. Atherton	Director	March 31, 2014
/s/ Don Peppers Don Peppers	Director	March 31, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Cicero Inc. and Subsidiaries (the "Company") as of December 31, 2013 and 2012, 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, 2013. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a working capital deficiency as of December 31, 2013. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Cherry Bekaert LLP
Raleigh, North Carolina
March 31, 2014

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

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash	$5	$69
Trade accounts receivable, net	1,125	1,247
Prepaid expenses and other current assets	208	289
Total current assets	1,338	1,605
Property and equipment, net	29	47
Intangible asset, net (Note 4)	--	28
Goodwill (Note 4)	2,832	2,832
Total assets	$4,199	$4,512
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Short-term debt (Note 5)	$456	$826
Accounts payable	3,178	2,887
Accrued expenses:		
Salaries, wages, and related items	1,235	1,119
Other	417	271
Deferred revenue	1,382	1,389
Total current liabilities	6,668	6,492
Long-term debt (Note 6)	6,134	3,509
Total liabilities	12,802	10,001
Commitments and contingencies (Notes 13 and 14)		
Stockholders' deficit:		
Convertible preferred stock, $0.001 par value, 10,000,000 shares authorized Series A-1 – 1,541.6 shares issued and outstanding at December 31, 2013 and 2012, $500 per share liquidation preference (aggregate liquidation value of $771)	--	--
Series B – 10,400 shares issued and outstanding at December 31, 2013 and 2012, $500 per share liquidation preference (aggregate liquidation value of $5,200)	--	--
Common stock, $0.001 par value, 215,000,000 shares authorized at December 31, 2013 and 2012; 85,806,247 issued and outstanding at December 31, 2013 and 73,094,286 issued and outstanding at December 31, 2012 (Note 9)	86	73
Common stock - subscribed	--	10
Additional paid-in-capital	237,135	236,919
Accumulated deficit	(245,824)	(242,491)
Total stockholders' deficit	(8,603)	(5,489)
Total liabilities and stockholders' deficit	$4,199	$4,512

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,	
	2013	2012
Revenue:		
Software	$124	$4,061
Maintenance	1,440	1,333
Services	628	603
Total operating revenue	2,192	5,997
Cost of revenue:		
Software	28	701
Maintenance	110	145
Services	964	979
Total cost of revenue	1,102	1,825
Gross margin	1,090	4,172
Operating expenses:		
Sales and marketing	1,423	1,897
Research and product development	1,272	1,476
General and administrative	1,055	949
Total operating expenses	3,750	4,322
Loss from operations before other income (charges)	(2,660)	(150)
Other income (charges):		
Interest expense	(545)	(547)
Other (Note 1)	(1)	509
	(546)	(38)
Net loss	(3,206)	(188)
8% preferred stock Series B dividend	127	127
Net loss applicable to common stockholders	$(3,333)	$(315)
Loss per share – basic and diluted	$(0.04)	$(0.00)
Average shares outstanding – basic and diluted	85,198	67,038

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

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

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Accumulated (Deficit)	Total
Balance at December 31, 2011	47,444,524	$47	11,941	--	$232,506	$ (242,176)	$(9,623)
Dividend for preferred B stock						(127)	(127)
Beneficial conversion of preferred A stock	1,000						--
Issuance of stock for payment of debt/interest	23,884,429	24			3,560		3,584
Issuance of stock for payment of accrued dividends	1,765,333	2			263		265
Common Stock – Subscription	10,200,000	10			500		510
Options issued as compensation					48		48
Restricted shares issued as compensation					42		42
Net loss						(188)	(188)
Balance at December 31, 2012	83,294,286	$83	11,941	--	$236,919	$ (242,491)	$(5,489)
Dividend for preferred B stock						(127)	(127)
Issuance of stock for payment of debt/interest	198,000				10		10
Issuance of stock for external consulting fees	673,720	1			34		35
Issuance of common stock	1,640,241	2			80		82
Options issued as compensation					8		8
Restricted shares issued as compensation					84		84
Net loss						(3,206)	(3,206)
	85,806,247	$86	11,941	--	$237,135	$ (245,824)	$(8,603)

Balance at
December 31,
2013

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,	
	2013	2012
Cash flows from operating activities:		
Net loss	$(3,206)	$(188)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	55	725
Stock compensation expense	92	90
Stock issuance for external consulting fees	35	--
Bad debt expense	--	18
Gain on forgiveness of debt	--	(598)
Gain on write down of accrued liability	--	(390)
Changes in assets and liabilities:		
Trade accounts receivable	122	(404)
Prepaid expenses and other assets	81	123
Accounts payable and accrued expenses	453	354
Deferred revenue	(7)	(222)
Net cash used in operating activities	(2,375)	(492)
Cash flows from investing activities:		
Purchases of property and equipment	(9)	(39)
Net cash used in investing activities	(9)	(39)
Cash flows from financing activities:		
Issuance of common stock	65	--
Common stock subscription	--	187
Borrowings under short and long-term debt	2,671	1,998
Repayments of short and long-term debt	(416)	(1,769)
Net cash provided by financing activities	2,320	416
Net decrease in cash	(64)	(115)
Cash at beginning of year	69	184
Cash at end of year	$5	$69
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	$12	$15
Interest	$19	$263

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

CICERO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Non-Cash Investing and Financing Activities

2013

During February 2013, the Company converted $10,000 of interest payable to a private lender by issuing 198,000 shares of its common stock.

2012

During April 2012, the Company converted $6,000 of account payable to a vendor by issuing 40,000 shares of its common stock.

During March 2012, the Company converted $265,000 of accrued Series B Preferred Stock dividends by issuing 1,765,333 shares of its common stock.

During March 2012, the Company converted $3,544,000 of debt and $33,000 of interest payable to private and related party lenders by issuing 23,843,429 shares of its common stock.

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 financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred an operating loss of approximately $3,206,000 for the year ended December 31, 2013, and has a history of operating losses. Management believes that its repositioned strategy of leading with its Discovery product to measure how work happens and then follow with its integration capabilities through its XM product will shorten the sales cycle and allow for value based selling to our customers and prospects. The Company anticipates a continued success in this regard based upon current discussions with active customers and prospects. The Company has borrowed $1988,000 and $2,671,000 and also retired approximately $1,796,000 and $416,000 of debt in 2012 and 2013, respectively. Additionally, the Company converted $3,800,000 of debt into common stock and has received notification of additional forgiveness of liabilities of $404,000 during 2012. 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. The 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 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 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, 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.

The fair value and carrying amount of long-term debt were as follows:

	December 31, 2013	December 31, 2012
Fair Value	$6,110,141	$3,420,397
Carrying Value	$6,134,000	$3,509,000

Valuations for long-term debt are determined based on borrowing rates currently available to the Company for loans with similar terms and maturities. These loans have been determined to be Level 3 within the fair value hierarchy and use a discounted cash flow model to determine its valuation. There have been no changes to the valuation technique.

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, 2013, 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 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.

Software Development Costs:

The Company capitalizes certain software costs after technological feasibility of the product has been established. Generally, an original estimated economic life of three years is assigned to capitalized software costs, once the product is available for general release to customers. Costs incurred prior to the establishment of technological feasibility are charged to research and product development expense.

Capitalized software costs are amortized over related sales on a product-by-product basis using the straight-line method over the remaining estimated economic life of the product.

The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technologies.

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 $233,000 and $106,000 at December 31, 2013 and 2012, respectively, and the remaining balance is comprised of accrued auditing, royalty, consulting and other.

Revenue Recognition:

We derive revenue from three sources: license fees, recurring revenue and professional services. Recurring revenue includes software maintenance and support. 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

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

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

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

Cost of Revenue:

The primary component of the Company's cost of revenue for its software products is the amortization of software for the assets acquired from SOAdesk in January 2010. (See Note 4)

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 $388,000 and $506,000, for the years ended December 31, 2013 and 2012, respectively.

Research and Product Development:

Research and product development costs are expensed as incurred. Research and development expenses were approximately $1,272,000 and $1,476,000, for the years ended December 31, 2013 and 2012, respectively.

Other Income/(Charges):

Other income (net) in fiscal 2012 consists primarily of a write off of certain debt forgiveness of $414,000.

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 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 8.)

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 2013 and 2012, 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:

	2013	2012
Stock options	3,396,210	3,921,493
Warrants	6,281,333	5,928,285
Preferred stock	11,941,618	11,941,618
	21,619,161	21,791,396

$127,000 was accrued for dividends on the Series B Preferred Stock in fiscal 2013 and 2012, respectively. During March 2012, the Company converted $265,000 of accrued dividends into 1,765,333 common shares of the Company.

Stock-Based Compensation:

The Company adopted 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 granted 25,000 options in fiscal 2013 at an exercise price of $0.05 per share and recognized approximately $8,000 of stock-based compensation. The Company granted 70,000 options in fiscal 2012 at exercise prices between $0.05 and $0.19 per share and recognized approximately $48,000 of stock-based compensation. The Company recognized as stock-based compensation approximately $36,000 in fiscal 2013 and 2012 for the restricted shares issued in 2007 to John Broderick, the Chief Executive Officer. Additionally, the Company recognized as stock based compensation approximately $48,000 and $6,000 in fiscal 2013 and 2012 for the 1,500,000 restricted shares issued in 2012 to John Broderick.

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

	2013		2012	
Fair value of common stock	$0.05		$0.14	
Expected life (in years)	9.99 years		9.85 years	
Expected volatility	169	%	186	%
Risk free interest rate	0.40	%	0.19	%
Expected dividend yield	0	%	0	%

Recent Accounting Pronouncements:

None applicable.

NOTE 2. ACCOUNTS RECEIVABLE

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

	2013	2012
Current trade accounts receivable	$1,125	$1,247

NOTE 3. PROPERTY AND EQUIPMENT

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

	2013	2012
Computer equipment	$143	$134
Furniture and fixtures	24	24
Office equipment	35	35
	202	193
Less: accumulated depreciation and amortization	(173)	(146)
	$29	$47

Depreciation and amortization expense of property and equipment was $27,000 and $24,000 for the years ended December 31, 2013 and 2012, 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 recent authoritative 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. Through December 31, 2013, no impairment of goodwill has been identified.

The Company's intangible asset with a finite life in the amount of $2,103,000 is being amortized over its estimated useful life of 3 years for software acquired from SOAdesk LLC. Amortization expense is $28,000 and $701,000 for fiscal 2013 and 2012, respectively. At December 31, 2013, the intangible asset has been fully amortized.

Based upon our annual evaluation testing, we have determined that the implied fair value of goodwill exceeds the carrying value of the goodwill as of December 31, 2013.

NOTE 5. SHORT-TERM DEBT

Term loan, notes payable, and notes payable to related party consist of the following at December 31 (in thousands):

	2013	2012
Note payable related parties (a)	$21	$3
Notes payable (b)	435	823
	$456	$826

(a) During 2012 and 2013, the Company entered into various short term notes payable with John Broderick, the Chief Executive Officer and Chief Financial Officer, for various working capital needs. The notes bear interest at 12% and were unsecured. At December 31, 2012, the Company was indebted to Mr. Broderick in the approximate amount of $3,000. No interest was paid in fiscal 2012. At December 31, 2013, the Company was indebted to Mr. Broderick in the approximate amount of $6,000. No interest was paid in fiscal 2013.

During 2013, the Company entered into a short term note payable with Antony Castagno, the Chief Technology Officer, for various working capital needs. The note was non-interest bearing and unsecured. At December 31, 2013, the Company was indebted to Mr. Castagno in the approximate amount of $15,000. No interest was paid in fiscal 2013.

(b) The Company has issued a series of short term promissory notes with private lenders, which provide for short term borrowings, both secured by accounts receivable and unsecured. The notes in the aggregate amount of $435,000 and $407,000, respectively, as of December 31, 2013, and 2012 bear interest between 10% and 36% per annum. In March 2012, the Company converted $235,000 of these previously held notes into 1,566,667 shares of Company's common stock.

In July 2012, the Company entered into a restructuring settlement with a private lender whereby the lender agreed to accept $495,000 in full satisfaction of all principal and interest due under the Note agreements, as of June 1, 2012, plus interest in the amount of approximately $21,000 for the period from June 1, 2012 to July 31, 2012. In addition, the Company agreed to pay interest for the period after July 31, 2012 in the aggregate amount of approximately $67,000. This interest was paid in seven monthly installments of approximately $9,750 each from August 2012 through February 2013. The final payment of the remaining principal of approximately $416,000 was paid in February 2013.

NOTE 6. LONG-TERM DEBT

Long-term loan and notes payable consist of the following at December 31 (in thousands):

	2013	2012
Note payable asset purchase agreement (a)	$700	$700
Note payable – related party (b)	4,398	1,773
Other long-term debt (c)	1,036	1,036

	$6,134	$3,509

F-14

(a) In January 2010, per the Asset Purchase Agreement, 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 through a series of amendments, the maturity date was extended to June 30, 2015. At December 31, 2013, the Company was indebted to SOAdesk in the amount of $700,000 in principal and $139,000 in interest.

The note is convertible into shares of Series B Convertible Preferred Stock at the rate of one share per every $150 of principal and interest due under the note. The Company is obligated to repay any principal of the loan with fifty percent of any gross proceeds of any Series B Preferred capital raised through maturity of the note. The note is convertible at the holder's option at any time or at maturity.

(b) From time to time during 2012 through 2013, the Company entered into several short term notes payable with John L. (Launny) Steffens, the Chairman of the Board of Directors, for various working capital needs. The notes bear interest at 12% per year and are unsecured. In December 2012, Mr. Steffens converted $300,000 of his debt into a subscription of 6,000,000 shares of the Company's common stock at a price of $0.05 per share as part of a private investment in the Company's stock. At December 31, 2012, the Company was indebted to Mr. Steffens in the approximate amount of $1,773,000 of principal and $148,000 in interest. In March 2013, Mr. Steffens agreed to extend the maturity date of all outstanding short term notes until April 1, 2014. As such this amount has been classified as long term debt as of December 31, 2012. At December 31, 2013, the Company was indebted to Mr. Steffens in the approximate amount of $4,398,000 of principal and $505,000 in interest. In March 2014, Mr. Steffens agreed to extend the maturity date of all outstanding short term notes until June 30, 2015. As such this amount has been classified as long term debt.

(c) In January 2010, as part of the Asset Purchase Agreement, the Company entered into an unsecured Convertible Promissory Note with SOAdesk in the amount of $1,000,000. The note bears interest at 5% and is due January 14, 2015. The note is only convertible into shares of the Company's common stock at the rate of one share for every $0.15 of principal and interest due under the note. The note is convertible at the option of the holder with one-third convertible in January 2011, two-thirds convertible in January 2012, and the entire note convertible in January 2013 or at maturity. In March 2012, SOAdesk elected to convert $300,000 of the outstanding note balance into 2,000,000 shares of Company's Common Stock. At December 31, 2012 the Company was indebted to SOAdesk in the amount of $700,000 of principal and $137,000 in interest. At December 31, 2013, the Company was indebted to SOAdesk in the amount of $700,000 of principal and $172,000 in interest.

In March 2012, certain private lenders agreed to refinance $83,000 of debt and $301,000 of accrued interest 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 April 4, 2014. As such this amount has been reclassified to long term debt at December 31, 2012. In March 2014, the maturity date of the note was extended to June 30, 2015. As such this amount has been reclassified to long term debt at December 31, 2013.

Scheduled maturities of the above long-term debt are as follows:

Year	
2015	$ 6,134,000
	$ 6,134,000

NOTE 7. CONVERSION OF DEBT TO EQUITY

On March 30, 2012, the Company entered into agreements with private lenders and investors, and officers, directors and significant shareholders of the Company; including John L. Steffens, the Chairman of the Board of Directors, to convert $3,243,502 of debt and $33,013 of interest into 21,843,429 common shares of the Company's stock. The Company accounted for the transaction pursuant to Topic ASC 470-50, Modification and Extinguishment of Debt. Pursuant to ASC 470-50, when debt is extinguished by delivering noncash assets owned by the debtor, the gain or loss on the extinguishment should be measured by the difference between the net carrying amount of the debt and the fair value of the noncash assets. Any difference between the fair value and the carrying amount of the noncash assets should be recognized as a gain or loss on transfer. As part of management's analysis in determining the fair market value, the Company engaged an independent expert to help management determine the fair market value of the Company stock and whether a discount to the price of the stock needed to be applied. In analysis of historical studies of discounts attributable to trading restrictions as well as analysis from an option pricing model of protective puts of the Company's stock, the Company determined that a 25% discount to the closing stock price on the day of the transaction would be required to establish fair market value. The Company calculated an approximately $246,000 gain on the extinguishment of the debt, however, due to the fact that 20,000,000 shares of the transaction were being issued to Mr. Steffens, the Company determined that this was not an arm's length agreement and as such has recorded the gain through additional paid in capital.

NOTE 8. 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 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 financial statements. The evaluation was performed for the tax years 2010 through 2012, and may be subject to audits for amounts related to net operating loss carryforwards generated in periods prior to December 31, 2009. 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 2012 and 2013. 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):

	2013	2012
Expected income tax benefit at statutory rate (34%)	$(1,090)	$(64)
State taxes, net of federal tax benefit	(192)	(10)
Effect of change in valuation allowance	(9,876)	(9,848)

Non-deductible expenses	4	6
Expiration of net operating loss deductions	11,154	9,916
Total	$--	$--

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

	2013	2012
Current assets:		
Accrued expenses, non-tax deductible	$99	$5
Deferred revenue	553	556
Contingent payments	(831)	(831)
Noncurrent assets:		
Stock compensation expense	580	543
Loss carryforwards	61,942	71,122
Depreciation and amortization	1,105	1,929
	63,448	73,324
Less: valuation allowance	(63,448)	(73,324)
	$--	$--

At December 31, 2013, the Company had net operating loss carryforwards of approximately $154,858,000, which may be applied against future taxable income. These carryforwards will expire at various times between 2014 and 2033. Net operating loss carryforwards include tax deductions for the disqualifying dispositions of incentive stock options. When the Company utilizes the net operating losses related to these deductions, the tax benefit will be reflected in additional paid-in capital and not as a reduction of tax expense. The total amount of these deductions included in the net operating loss carryforwards is $21,177,000.

The Company provided a full valuation allowance on the total amount of its deferred tax assets at December 31, 2013 and 2012 since management does not believe that it is more likely than not that these assets will be realized.

NOTE 9. STOCKHOLDERS' EQUITY

Preferred Stock:

In April 2010, the Company issued to a certain accredited investor 1,333 shares of Series B Convertible Preferred Stock at $150 per share for a total of $200,000. The Series B Convertible Preferred Stock bears an annual dividend of 8%. The Series B stock may convert into common stock at a conversion rate of $0.15 per share. Additionally, the Series B stock provides warrants to purchase common stock of the Company at a strike price of $0.25 per share. The warrants expire in five years. 333,333 warrants were issued to the investor.

In January 2010, the Company issued to certain accredited investors 9,067 shares of Series B Convertible Preferred Stock at $150 per share for a total of $1,360,000, including $500,000 in cash, the cancellation of $710,000 of existing indebtedness. The Series B Convertible Preferred Stock bears an annual dividend of 8%. The Series B stock may convert into common stock at a conversion rate of $0.15 per share. Additionally, the Series B stock investors were issued warrants to purchase common stock of the Company at a strike price of $0.25 per share. The warrants expire in five years. 2,266,667 warrants were issued to these investors.

Common Stock:

During February 2013, the Company converted approximately $10,000 of interest payable to a private lender by issuing 198,000 shares of its common stock.

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In December 2012, the Company had stock subscription of 10,200,000 shares of their common stock at a price of $0.05 per share. This was part of an offering in a private investment in the Company's common stock. The stock subscription was made up of $186,132 of cash from private investors, the extinguishment of $23,868 of interest on a note with one of the private investors, and the exchange of $300,000 of short term debt with Mr. John Steffens, the Company's Chairman. Additionally, the investors were issued warrants to purchase common stock of the Company at a strike price of $0.20 per share. The warrants expire in five years. 2,040,000 warrants were issued to these investors. In 2013, an additional investment in the offering was made up of $60,000 of cash from private investors and the exchange of $15,000 of short term debt and the extinguishment of $2,012 of interest on a note with one of the private investors for 1,640,241 shares of the Company's common stock and 328,048 warrants. In March 2013, the offering was officially closed and the Company issued 11,840,241 common shares in exchange for $592,012.

In April 2012, the Company converted approximately $6,000 of accounts payable to a vendor by issuing 40,000 shares of its common stock.

In March 2012, the Company converted approximately $265,000 of accrued Series B Preferred Stock dividends by issuing 1,765,333 shares of its common stock.

In March 2012, the Company converted approximately $3,544,000 of debt and $33,000 of interest payable to certain directors and significant shareholders of the Company and other private lenders by issuing 23,843,429 shares of its common stock.

Stock Grants:

In November 2012, the Company issued Mr. John P. Broderick, our Chief Executive Officer, a restricted stock award in the amount of 1,500,000 shares which will vest to him upon his termination, or change in control. The Company valued the award at the fair market value of the date of the award and is amortizing the total expense of $75,000 over the implicit service period of 2 years. The Company recorded expense of approximately $48,000 and $6,000 in fiscal 2013 and 2012, respectively. The Company has unrecognized compensation expense of approximately $28,000 associated with this grant.

In August 2007, the Company issued Mr. John P. Broderick, our Chief Executive Officer, a restricted stock award in the amount of 549,360 shares which will vest to him upon his resignation or termination. The Company used the Black-Scholes method to value these shares and assumed a life of 7 years. The Company recorded compensation expense of approximately $36,000 for fiscal 2013 and 2012. The Company has unrecognized compensation expense of approximately $43,000 associated with this grant.

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

Activity for stock options issued under these plans for the years ending December 31, 2013 and 2012 was as follows:

	Number of Options	Option Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance at December 31, 2011	4,296,193	0.06-39.00	$0.39	
Granted	70,000	0.05-0.19	$0.14	
Forfeited	(440,000)	0.06-31.00	$0.35	
Expired	(4,700)	34.00-39.00	$36.39	
Balance at December 31, 2012	3,921,493	0.06-46.00	$0.36	
Granted	25,000	0.05	$0.05	
Forfeited	(544,733)	0.06-46.00	$0.44	
Expired	(5,550)	22.00-26.00	$25.57	
Balance at December 31, 2013	3,396,210	0.05-46.00	$0.31	$0.00

Activity for non-vested stock options under these plans for the fiscal year ending December 31, 2013 and 2012 was as follows:

	Number of Options	Option Price Per Share	Weighted Average Exercise Price
Balance at December 31, 2011	952,414	0.06-0.10	$0.08
Granted	70,000	0.05-0.19	$0.14
Vested	(805,747)	0.05-0.09	$0.08
Forfeited	(75,000)	0.08-0.09	$0.08
Balance at December 31, 2012	141,667	0.05-0.19	$0.10
Granted	25,000	0.05	$0.05
Vested	(33,334)	0.05-0.19	$0.12
Forfeited	(8,333)	0.16	$0.16
Balance at December 31, 2013	125,000	0.05-0.19	$0.08

There were 25,000 options granted during 2013 and 70,000 options granted during 2012. The weighted average grant date fair value of options issued during the years ended December 31, 2013 and 2012 was equal to $0.05 and $0.14 per share, respectively. There were no option grants issued below fair market value during 2013 and 2012.

At December 31, 2013, there was unrecognized compensation cost of $2,000 related to stock options which is expected to be recognized over a weighted-average amortization period of one year.

At December 31, 2013 and 2012, options to purchase 3,271,210 and 3,779,826 and shares of common stock were exercisable, respectively, pursuant to the plans at prices ranging from $0.05 to $46.00. The following table summarizes information about stock options outstanding at December 31, 2013:

Exercise Price	Number Outstanding	Remaining Contractual Life for Options	Number Exercisable	Weighted Average Exercise Price

	Outstanding			
$0.05-0.08	725,000	7.7	608,333	$0.07
0.09	997,750	6.6	997,750	0.09
0.10-0.37	370,000	5.4	361,667	0.15
0.38-31.00	1,303,460	3.6	1,303,460	0.65
	3,396,210	5.6	3,271,210	$0.32

Preferred Stock:

Series A-1

The holders of the Series A-1 preferred stock shall have the rights and preferences set forth in the Certificate of Designations filed with the Secretary of State of the State of Delaware upon the approval of the Recapitalization. The rights and interests of the Series A-1 preferred stock of the Company will be substantially similar to the rights and interests of each of the series of the former Level 8 preferred stock other than for (i) anti-dilution protections that have been permanently waived and (ii) certain voting, redemption and other rights that holders of Series A-1 preferred stock will not be entitled to. All shares of Series A-1 preferred stock will have a liquidation preference pari passu with all other Series A-1 preferred stock.

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

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

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

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

Series B

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

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

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

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

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

Stock Warrants:

The Company values warrants based on the Black-Scholes pricing model. In accordance with ASC 815, these warrants are classified as equity. The warrants were issued in conjunction with certain promissory notes, the Series B preferred Stock offering, and the private investment in the Company's shares. At December 31, 2013, there were 6,281,333 exercisable warrants at an exercise price between $0.08 and $0.25 per share.

	Number of Warrants	Warrant Price Per Share	Weighted Average Exercise Price
Balance at December 31, 2012	5,928,285	$0.08-$0.25	$0.22
Issued	353,048	$0.10-$0.20	$0.19
Exercised	--	--	--
Forfeited	--	--	--
Balance at December 31, 2013	6,281,333	$0.10-$0.25	$0.22

NOTE 10. 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 2013 and 2012.

NOTE 11. SIGNIFICANT CUSTOMERS AND CONCENTRATION OF CREDIT RISK

In 2013, three customers accounted for 46%, 13% and 12% of operating revenues and one customer accounted for 89% of accounts receivable at December 31, 2013. In 2012, three customers accounted for 43%, 21% and 19% of operating revenues and two customers accounted for 80% and 10% of accounts receivable at December 31, 2012.

NOTE 12. RELATED PARTY INFORMATION

From time to time during 2012 through 2013, the Company entered into several short term notes payable with John L. (Launny) Steffens, the Chairman of the Board of Directors, for various working capital needs. The notes bear interest at 12% per year and are unsecured. In December 2012, Mr. Steffens converted $300,000 of his debt into a subscription of 6,000,000 shares of the Company's common stock at a price of $0.05 per share as part of a private investment in the Company's stock. At December 31, 2012, the Company was indebted to Mr. Steffens in the approximate amount of $1,773,000 of principal and $148,000 in interest. In March 2013, Mr. Steffens agreed to extend the maturity date of all outstanding short term notes until April 1, 2014. As such this amount has been classified as long term debt as of December 31, 2012. At December 31, 2013, the Company was indebted to Mr. Steffens in the approximate amount of $4,398,000 of principal and $505,000 in interest. In March 2014, Mr. Steffens agreed to extend the maturity date of all outstanding short term notes until June 30, 2015. As such this amount has been classified as long term debt as of December 31, 2013. (See Note 6)

During 2012 and 2013, the Company entered into several short term notes payable with John Broderick, the Chief Executive Officer and Chief Financial Officer, for various working capital needs. The notes bear interest at 12% and were unsecured. At December 31, 2012, the Company was indebted to Mr. Broderick in the approximate amount of $3,000. No interest was paid in fiscal 2012. At December 31, 2013, the Company was indebted to Mr. Broderick in the approximate amount of $6,000. No interest was paid in fiscal 2013.

Antony Castagno, the Company's Chief Technology Officer, is part-owner of SOAdesk LLC. During 2013, the Company entered into a short term note payable with Mr. Castagno for various working capital needs. The note was non-interest bearing and was unsecured. At December 31, 2013, the Company was indebted to Mr. Castagno in the approximate amount of $15,000.

NOTE 13. COMMITMENTS AND EMPLOYMENT AGREEMENTS

The Company leases certain facilities and equipment under various operating leases. 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, 2013 consisted of only one lease as follows (in thousands):

	Lease Commitments
2014	$ 59
	$ 59

Rent expense was $98,000 and $96,000 for each year ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the Company had no sublease arrangements.

Per the Asset Purchase Agreement with SOAdesk LLC in 2010, the Company was obligated to make additional 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. At December 31, 2013 and 2012 the Company has recorded $843,000 in accounts payable for the earn-out earned through July 31, 2011.

Under the employment agreement between the Company and Mr. Broderick effective January 1, 2014, 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 Compensation Committee, in its discretion. Upon termination of Mr. Broderick's employment by the Company without cause, we agreed to pay Mr. Broderick a lump sum payment of one year of Mr. Broderick's then current base salary within 30 days of termination and any unpaid deferred salaries and bonuses. In the event there occurs a substantial change in Mr. Broderick's job duties, there is a decrease in or failure to provide the compensation or vested benefits under the employment agreement or there is a change in control of the Company, we agreed to pay Mr. Broderick a lump sum payment of one year of Mr. Broderick's then current base salary within thirty (30) days of termination. Additionally, as part of his employment agreement for fiscal 2012, Mr. Broderick will be entitled to receive 1,500,000 shares of the Company's common stock in the event of the termination, with or without cause, of his employment by the Company or his resignation from the Company with or without cause or in the event of a change of control (as that term is defined in the Employment Agreement) of the Company. Mr. Broderick will have thirty (30) days from the date written notice is given about either a change in his duties or the announcement and closing of a transaction resulting in a change in control of the Company to resign and execute his rights under this agreement. If Mr. Broderick's employment is terminated for any reason, Mr. Broderick has agreed that, for two (2) years after such termination, he will not directly or indirectly solicit or divert business from us or assist any business in attempting to do so or solicit or hire any person who was our employee during the term of his employment agreement or assist any business in attempting to do so.

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

NOTE 14. 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.

In October 2003, we were served with a summons and complaint in Superior Court of North Carolina regarding unpaid invoices for services rendered by one of our subcontractors. The amount in dispute was approximately $200,000 and is included in accounts payable. Subsequent to March 31, 2004, we settled this litigation. Under the terms of the settlement agreement, we agreed to pay a total of $189,000 plus interest over a 19-month period ending November 15, 2005. The Company has not made any additional payments and has a remaining liability of approximately $88,000.

During 2011, the Company was served with a writ of summons by a creditor who holds several short-term notes. Several notes in the aggregate of $250,000 were due and outstanding under the Note agreements. The loans bore interest at 36% per annum. In July 2012, the Company entered into a restructuring settlement with the lender whereby the lender agreed to accept $495,000 in full satisfaction of all principal and interest due under the Note agreements, as of June 1, 2012, plus interest in the amount of approximately $21,000 for the period from June 1, 2012 to July 31, 2012. In addition, the Company agreed to pay interest for the period after July 31, 2012 in the aggregate amount of approximately $67,000. This interest was paid in seven monthly installments of approximately $9,750 each from August 2012 through February 2013. The final payment of the remaining principal of approximately $416,000 was paid in February 2013.

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, 2013 and 2012.

The Company is currently in discussions with the State of Delaware regarding the possible underpayment of its annual franchise tax dating back to 2002. The Company has recently filed with the IRS amended federal tax returns, upon which the Delaware franchise tax is partially based, for years 1999 through 2011 and has submitted those amended federal tax returns to the State of Delaware. The Company believes the value of its assets reflected in such amended tax returns should ameliorate the possible underpayment, and that if the State of Delaware re-calculates the Company's franchise taxes based upon its amended returns, the Company would have no outstanding balance for its Delaware franchise tax. Upon resolution thereof, the Company's Certificate of Incorporation would be reinstated. However, should the State of Delaware not accept the amended tax returns, or accept the amended tax returns but not re-calculate franchise tax based thereon, the Company believes, based on certain conversations with an employee of the Delaware Franchise Tax Bureau, it would be exposed to a franchise tax liability of approximately $1.6 million, and possibly more depending on interest and penalties which could be assessed. Should the Company not be able to re-instate its Certificate of Incorporation with the State of Delaware, its corporate powers would continue to be inoperative.

NOTE 15. SUBSEQUENT EVENTS

In March 2014, the Company amended various promissory notes of approximately $4,398,000 with John L. (Launny) Steffens, the Chairman of the Board of Directors, its promissory note of $700,000 with SOAdesk LLC, and its promissory note of approximately $336,000 with a private lender. The notes were all amended to extend the maturity date on each note until June 30, 2015.

In January 2014, the Company entered into various note payables totaling $135,000 with Mr. Steffens. The notes bear interest at 12%. They are unsecured and mature on June 30, 2015.

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