CICERO INC
Form 10-Q
August 14, 2017

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

FORM 10-Q

(Mark one)
[X]
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017.

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

For the transition period from ___________ to _____________

Commission File Number 0-26392

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

Delaware	11-2920559
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification Number)

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Exchange Act).
Yes No

207,913,541 shares of common stock, $.001 par value, were outstanding as of August 10, 2017.

Cicero Inc.
Index

PART I. Financial Information	Page Number
Item 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016	3
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)	5
Condensed Consolidated Statement of Stockholders' Deficit as of June 30, 2017 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosures about Market Risk	21
Item 4. Controls and Procedures	21
PART II. Other Information	22
Item 1. Legal Proceedings	22
Item 1A. Risk Factors	22
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3. Defaults Upon Senior Securities	22
Item 4. Mine Safety Disclosures	22
Item 5. Other Information	22
Item 6. Exhibits	22
SIGNATURE	23

Part I. Financial Information
Item 1. Condensed Consolidated Financial Statements

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

	June 30, 2017	December 31, 2016
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$40	$91
Trade accounts receivable	99	278
Prepaid expenses and other current assets	88	34
Total current assets	227	403
Property and equipment, net	6	9
Total assets	$233	$412
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities:		
Short-term debt	$3,931	$5,483
Accounts payable	1,056	1,032
Accrued expenses:		
Salaries, wages, and related items	1,649	1,529
Accrued interest	1,789	2,164
Other	613	589
Deferred revenue	545	748
Total current liabilities	9,583	11,545
Long term debt (Note 2)	421	--
Total liabilities	10,004	11,545
Commitments and Contingencies (Note 6 and 7)		
Stockholders' deficit:		
Convertible preferred stock, $0.001 par value, 10,000,000 shares authorized No shares issued and outstanding at June 30, 2017 and December 31, 2016	--	--
Common stock, $0.001 par value, 600,000,000 shares authorized, 207,913,541 issued and outstanding at June 30, 2017 and 192,253,005 issued and outstanding at December 31, 2016	208	192
Additional paid-in capital	248,608	246,272
Accumulated deficit	(258,587)	(257,597)
Total stockholders' deficit	(9,771)	(11,133)
Total liabilities and stockholders' deficit	$233	$412

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

Page 3

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Software	$80	$12	$475	$23
Maintenance	133	256	250	645
Services	50	78	109	85
Total operating revenue	263	346	834	753
Cost of revenue:				
Software	--	--	--	--
Maintenance	40	48	80	97
Services	96	98	192	242
Total cost of revenue	136	146	272	339
Gross margin	127	200	562	414
Operating expenses:				
Sales and marketing	121	182	208	331
Research and product development	273	290	554	594
General and administrative	199	187	550	445
Total operating expenses	593	659	1,312	1,370
Loss from operations	(466)	(459)	(750)	(956)
Other income/(expense):				
Interest expense	(126)	(109)	(240)	(214)
Total other income/(expense)	(126)	(109)	(240)	(214)
Net loss	$(592)	$(568)	$(990)	$(1,170)
Loss per share applicable to common stockholders:				
Basic and Diluted	$(0.00)	$(0.00)	$(0.01)	$(0.01)
Weighted average shares outstanding:				
Basic and Diluted	192,425	192,253	192,340	192,253

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

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(990)	$(1,170)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	3	2
Stock compensation expense	3	--
Amortization of debt discount	--	131
Changes in assets and liabilities:		
Trade accounts receivable	179	219
Prepaid expenses and other current assets	(54)	167
Accounts payable and accrued expenses	346	(363)
Deferred revenue	(203)	215
Net cash used by operating activities	(716)	(799)
Cash flows from investing activities:		
Purchases of equipment	--	(2)
Net cash used by investing activities	--	(2)
Cash flows from financing activities:		
Borrowings under debt	665	453
Repayments of debt	--	(4)
Net cash generated by financing activities	665	449
Net decrease in cash	(51)	(352)
Cash:		
Beginning of period	91	1,009
End of period	$40	$657

Non-Cash Investing and Financing Activities:

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

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

Page 5

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

	Common Stock		Preferred Stock				
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated (Deficit)	Total
Balance at December 31, 2016	192,253,005	$192	--	--	$246,272	$(257,597)	$(11,133)
Options issued as compensation					3		3
Common Stock issued for conversion of debt/interest	15,660,536	16			2,333		2,349
Net loss						(990)	(990)
Balance at June 30, 2017 (unaudited)	207,913,541	$208	--	--	$248,608	$(258,587)	$(9,771)

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

CICERO INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements for the three months ended June 30, 2017 and 2016 are unaudited, and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations. Accordingly, these interim financial statements should be read in conjunction with the audited condensed financial statements and notes thereto contained in Cicero Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 31, 2017. The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for other interim periods or for the full fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary for a fair presentation of the interim results of operations. All such adjustments are of a normal, recurring nature.

The year-end condensed balance sheet data was derived from audited consolidated financial statements in accordance with the rules and regulations of the SEC, but does not include all disclosures required for financial statements prepared in accordance with accounting principles generally accepted in the United States of America.

The accompanying condensed 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.

Liquidity

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred an operating loss of approximately $3,908,000 for the year ended December 31, 2016, and has a history of operating losses. For the six months ended June 30, 2017, the Company incurred a net loss of $990,000 and had a working capital deficiency of $9,356,000 as of June 30, 2017. In August 2017, the Company issued 5,083 of its Series A preferred stock and a Warrant to purchase up to 20,333,620 shares of the Company’s Common Stock at an exercise price of $0.07 per share to its Chairman, John Steffens as part of a conversion of debt and interest totaling $5,083,405 improving its working capital deficiency. Management believes that its product’s functionality resonates in the marketplace as both “analytics” and “automation” are topics often discussed and written about. Further, the Company believes that its repositioned strategy of expanding the indirect channel with more resale and OEM partners, will shorten the sales cycle and allow for value based selling to our customers and prospects. The Company anticipates success in this regard based upon current discussions with active partners, customers and prospects. The Company has borrowed $665,000 and $453,000 in 2017 and 2016, respectively. Should the Company be unable to secure customer contracts that will drive sufficient cash flow to sustain operations, the Company will be forced to seek additional capital in the form of debt or equity financing; however, there can be no assurance that such debt or equity financing will be available on terms acceptable to the Company or at all. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Use of Accounting 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, stock based compensation, deferred taxes, and related valuation allowances and valuation of equity instruments.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification (“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 uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards under ASC 718. The Company did not issue any stock options in the first six months of 2017. The Company recognized stock-based compensation expense of $1,200 and $2,500 for the three and six months ended June 30, 2017, respectively, in connection with outstanding options. The Company has $300 in unrecognized stock-based compensation expense as of June 30, 2017.

The following table sets forth certain information as of June 30, 2017 about shares of the Company’s common stock, par value $.001 (the “Common Stock”), outstanding and available for issuance under the Company’s existing equity compensation plans: the Cicero Inc. 2007 Employee Stock Option Plan and the Outside Director Stock Option Plan. The Company’s stockholders approved all of the Company’s stock-based compensation plans.

	Shares
Outstanding on December 31, 2016	2,832,212
Granted	--
Exercised	--
Forfeited	(250,000)
Outstanding on June 30, 2017	2,582,212
Weighted average exercise price of outstanding options	$0.22
Aggregate Intrinsic Value	$0
Shares available for future grants on June 30, 2017	1,917,788
Weighted average of remaining contractual life	2.92

Recent Accounting Pronouncements

The FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment award transactions including (a) income tax consequences; (b) classification of awards as either debt or equity liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and

interim periods within those annual periods. The Company has adopted this ASU as of January 1, 2017. The primary amendment impacting the Company's financial statements is the requirement for excess tax benefits or shortfalls on the exercise of stock-based compensation awards to be presented in income tax expense in the Consolidated Statements of Income during the period the award is exercised as opposed to being recorded in Additional paid-in capital on the Consolidated Balance Sheets. The excess tax benefit or shortfall is calculated as the difference between the fair value of the award on the date of exercise and the fair value of the award used to measure the expense to be recognized over the service period. Changes are required to be applied prospectively to all excess tax benefits and deficiencies resulting from the exercise of awards after the date of adoption. The ASU requires a "modified retrospective" approach application for excess tax benefits that were not previously recognized in situations where the tax deduction did not reduce current taxes payable. For the six-month period ended June 30, 2017, the amount is immaterial. As the end result is dependent on the future value of the Company's stock as well as the timing of employee exercises, the amount of future impact cannot be quantified at this time.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, standard that clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows where diversity in practice exists. The new standard is effective for us in our first quarter of fiscal 2018 and earlier adoption is permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

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

In January 2016, the FASB issued ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, that will enhance the Company’s reporting through the updating of the recognition, measurement, presentation, and disclosure of financial instruments. The new standard is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Earlier adoption for public companies is permitted for interim and annual reporting periods as of the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606) Section A—Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40) The new guidance will replace most current U.S. GAAP guidance on this topic and eliminate most industry-specific guidance. According to the new guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration for which the Company expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company has not yet selected a transition method and is evaluating the impact of adopting this new accounting standard update on the consolidated financial statements and related disclosures. We expect to identify similar performance obligations under ASC 606 as compared with deliverables and separate units of account previously identified. As a result, we expect timing of our revenue to be

very similar to how we record revenue currently.

NOTE 2. DEBT

Debt and notes payable to related party consist of the following (in thousands):

	June 30, 2017	December 31, 2016
Note payable – asset purchase agreement (a)	$421	$1,518
Note payable – related parties (b)	3,545	2,879
Notes payable (c)	386	1,086
Total debt	4,352	5,483
Less current portion	(3,931)	(5,483)
Total long term debt	$421	$--

(a)
In January 2010, the Company entered into an unsecured convertible promissory note with SOAdesk for $700,000 with an annual interest rate of 5%. The note was originally scheduled to mature on March 31, 2010 but was subsequently amended and through a series of amendments, the maturity date was extended to June 30, 2015. In June 2015, the note was amended and the maturity date was extended to June 30, 2017. In June 2015, the note was amended so that the note is convertible into shares of the Company's common stock at the rate of one share for every $0.15 of principal and interest due under the note. The note was further amended that should the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA") exceed $1,000,000 in either 12 month period beginning June 30, 2015 and June 30, 2016, respectively, then the Company shall repay, in cash, a portion of the outstanding principal of the note at the rate of $0.50 for each $1.00 that exceeds the EBITDA threshold. The note is convertible at the holder's option at any time or at maturity. In July 2015, the Company paid $25,000 toward the principal amount of the note. At December 31, 2016, the Company was indebted to SOAdesk in the amount of $675,000 in principal and $242,000 in interest. On June 30, 2017, the Company issued 6,224,178 common shares of its stock to convert its total obligation of $675,000 of principal and $294,150 of interest. This is a related party transaction.

As part of a prior acquisition, the Company was obligated to certain earn-out obligation payments of up to $2,410,000 over an 18-month period from January 15, 2010 through July 31, 2011, based upon the achievement of certain revenue performance targets. The earn-out was payable fifty percent in cash and fifty percent in common stock of the Company at the rate of one share for every $0.15 earn-out payable. The Company had recorded $842,606 in its accounts payable as of December 31, 2014 due to a portion of earn-out obligations being met. In June 2015, the Company entered into a promissory note with SOAdesk for fifty percent of the earn-out payable ($421,303) to SOAdesk. The maturity date of the note was December 31, 2015 with an annual interest rate of 10%. In December 2015, the maturity date was extended to December 31, 2016. In December 2016, the maturity date was extended to December 31, 2017 and two milestone payments of $62,500, to be applied to outstanding interest and then principal, payable on June 1, 2017 and December 1, 2017, respectively, were added. In April 2017, the maturity date was extended to January 1, 2019 and two milestone payments of $62,500, to be applied to outstanding interest and then principal, payable on June 1, 2018 and December 1, 2018, respectively, were added. As such, the Company has reclassed this debt to long term debt. At December 31, 2016, the Company was indebted to SOAdesk for $421,303 in principal and approximately $63,000 in interest. At June 30, 2017, the Company was indebted to SOAdesk for $421,303 in principal and approximately $22,000 in interest.

The Company also entered into a convertible promissory note with SOAdesk for fifty percent of the earn-out payable ($421,303) with a maturity date of June 30, 2017 that was non-interest bearing. The note is only convertible into

shares of the Company's common stock at the rate of one share for every $0.15 of principal due under the note. The note is convertible at the holder's option at any time or at maturity. At December 31, 2016, the Company was indebted to SOAdesk for $421,303 in principal. On June 30, 2017, the Company issued 2,808,687 common shares of its stock to convert its total obligation of $421,303 of principal.

(b)
From time to time during 2015 through 2017, the Company entered into several short term notes payable with John Steffens, the Company's Chairman of the Board, for various working capital needs. The notes vary from non-interest bearing to interest rate of 12% with a maturity date of December 31, 2015. The Company is obligated to repay the notes with the collection of any accounts receivables. The Company had repaid $170,000 in principal as of December 31, 2015. In December 2015, the maturity dates were extended to December 31, 2016. At December 31, 2016, the Company was indebted to Mr. Steffens in the approximate amount of $2,879,000 of principal and $1,380,000 of interest. In December 2016, the maturity dates were extended to June 30, 2017. Additionally notes totaling $2,269,000 that were previously non-interest bearing were amended to an annual interest rate of 10%. At June 30, 2017, the Company was indebted to Mr. Steffens in the approximate amount of $3,544,500 of principal and $1,539,000 of interest. In August 2017, the Company issued 5,083 shares of its Series A preferred stock and warrants to purchase up to 20,333,620 shares of the Company's common stock at an excise price of $0.07 per share to convert the total obligation of $3,544,500 of principal and $1,538,905 of interest. (See Note 7).

(c)
The Company has issued a series of short-term unsecured promissory notes with private lenders, which provide for short term borrowings. The notes in the aggregate amount of $50,000 of principal and $64,000 of interest and $50,000 of principal and $70,000 of interest, respectively, as of December 31, 2016 and June 30, 2017, bear interest between 10% and 36% per annum.

In March 2014, the Company reclassified to short-term debt its unsecured convertible promissory note with SOAdesk that was entered into as part of the Asset Purchase Agreement with SOAdesk for $1,000,000 with an annual interest rate of 5% and a maturity date of January 14, 2015. In March 2012, SOAdesk elected to convert $300,000 of the outstanding note balance into 2,000,000 shares of the Company's common stock. Through a series of amendments, the note was amended to extend the maturity date until June 30, 2015. In June 2015, the note was amended to extend the maturity date until June 30, 2017. The note was further amended that should the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA") exceed $1,000,000 in either 12 month period beginning June 30, 2015 and June 30, 2016, respectively, then the Company shall repay, in cash, a portion of the outstanding principal of the note at the rate of $0.50 for each $1.00 that exceeds the EBITDA threshold. At December 31, 2016, the Company was indebted to SOAdesk in the amount of $700,000 in principal and $277,000 in interest. The note 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. On June 30, 2017, the Company issued 6,627,671 common shares of its stock to convert its total obligation of $700,000 of principal and $294,151 of interest.

In June 2014, the Company reclassified to short-term debt its unsecured promissory note with a private lender that was originally entered into in March 2012 for $336,000 at an interest rate of 12% and a maturity date of March 31, 2013. In March 2013, the maturity date of the note was extended to June 30, 2015. In June 2015, the maturity date of the note was extended to June 30, 2017, a repayment schedule of quarterly principal and interest payments of $12,000 beginning on September 30, 2015 and two milestone payments of $125,000 on February 28, 2016 and 2017, respectively were added. In February 2016, the note was amended that the first milestone payment due on February 29, 2016, was now payable quarterly beginning February 29, 2016 through November 29, 2016. At December 31, 2016, the Company was indebted to this private lender in the amount of $336,000 in principal and $137,000 in interest. At June 30, 2017, the Company was indebted to this private lender in the amount of $336,000 in principal and $157,000 in interest.

NOTE 3. INCOME TAXES

The Company accounts for income taxes in accordance with Financial Accounting Standards Board (“FASB”) guidance ASC 740 “Income Taxes”. The Company's effective tax rate differs from the statutory rate primarily due to the fact that no income tax benefit or expense was recorded for the first three and six months of fiscal year 2017 or 2016, respectively. As a result of the Company's recurring losses, the deferred tax assets have been fully offset by a valuation allowance.

NOTE 4. 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. Potentially dilutive securities outstanding during the periods presented include stock options, warrants, restricted stock, preferred stock and convertible debt.

The weighted average number of common shares is increased by the number of dilutive potential common shares issuable on the exercise of options less the number of common shares assumed to have been purchased with the proceeds from the exercise of the options pursuant to the treasury stock method; those purchases are assumed to have been made at the average price of the common stock during the respective period. Options or warrants to purchase shares of common stock are excluded from the calculation of diluted earnings per share when their inclusion would have an anti-dilutive effect on the calculation. No options or warrants were included in the calculation of loss per share for the three and six months ended June 30, 2017 and 2016.

NOTE 5. COMMITMENTS

In June 2014, the Company entered into an amendment with its landlord and renewed its lease through 2018. In October 2016, the Company entered into an amendment reducing the square footage being leased for the remaining term of the lease. Future minimum lease commitments on operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2017 consisted of only one lease as follows (in thousands):

	Lease Commitments
2017	$33
2018	55
	$88

NOTE 6. CONTINGENCIES

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

operations.

Under the indemnification clause of the Company’s standard reseller agreements and software license agreements, the Company agrees to defend the reseller/licensee against third party claims asserting infringement by the Company’s products of certain intellectual property rights, which may include patents, copyrights, trademarks or trade secrets, and to pay any judgments entered on such claims against the reseller/licensee. There were no claims against the Company as of June 30, 2017.

NOTE 7. SUBSEQUENT EVENTS

In July 2017, the Company entered into notes payable totaling $190,000 with Mr. Steffens. The notes bear interest at 10% per annum. The notes are unsecured and mature on June 30, 2018. The Company is obligated to repay the note with the collection of any accounts receivables.

In August 2017, the Company issued 5,083 of its Series A preferred stock to its Chairman, John Steffens as part of a conversion of debt and interest totaling $5,083,405. (See Note 2). The Company accounted for the transaction pursuant to Topic ASC 470-50, Modification and Extinguishment of Debt. Due to the fact that the transaction was with Mr. Steffens, the Company's Chairman of the Board, the Company determined that this was not an arm's length agreement and as such has recorded the entire transaction through additional paid in capital.

In August 2017, the Company issued a Warrant to purchase up to 20,333,620 shares of the Company's Common Stock at an exercise price of $0.07 per share to its Chairman, John L. Steffens, as part of his debt conversion of principal and interest totaling $5,083,405. The Warrant is exercisable for a period of ten years, and subject to customary anti-dilution provisions. The Company is obligated to reserve a sufficient number of shares of the Company's common stock to enable the exercise of the Warrant.

The Company's management, in consultation with its outside tax professionals, have determined that the stock conversion will not trigger an Internal Revenue Code Section 382 limitation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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

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

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

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

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

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. We offer services around our integration software products.

This Quarterly Report on Form 10-Q 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. These risk and uncertainties include, among others, the following:

An 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;

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

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;

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;

A loss of key personnel associated with Cicero Discovery and Cicero Discovery Automation development could adversely affect our business;

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

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

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

We may face damage to the reputation of our software and a loss of revenue if our software products fail to perform as intended or contain significant defects;

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

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

Reference should be made to such factors and all forward-looking statements are qualified in their entirety by the above cautionary statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Given these uncertainties, readers of this Quarterly Report on Form 10-Q are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this quarterly report. We assume no obligation to update or revise them or provide reasons why actual results may differ.

RESULTS OF OPERATIONS

The table below presents information for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Total revenue	$263	$346	$834	$753
Total cost of revenue	136	146	272	339
Gross margin	127	200	562	414
Total operating expenses	593	659	1,312	1,370
Income/(loss) from operations	$(466)	$(459)	$(750)	$(956)

Revenue. 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 typically does not have any material backlog of unfilled software orders and product revenue in any quarter is substantially dependent upon orders received in that quarter. Because the Company's operating expenses are relatively fixed over the short term, variations in the timing of the recognition of revenue can cause significant variations in operating results from quarter to quarter.

We generally recognize revenue from software license fees when our obligations to the customer are fulfilled, which is typically upon delivery or installation. Revenue related to software maintenance contracts is recognized ratably over the term of the contracts. Revenues from services are recognized on a time and materials 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. Within the revenue recognition rules pertaining to software arrangements, certain assumptions are made in determining whether the fee is fixed and determinable and whether collectability is probable. Should our actual experience with respect to collections differ from our initial assessment, there could be adjustments to future results.

THREE MONTHS ENDED JUNE 30, 2017 COMPARED WITH THE THREE MONTHS ENDED JUNE 30, 2016.

Total Revenues. Total revenues decreased $83,000, or 24.0%, from $346,000 to $263,000, for the three months ended June 30, 2017 as compared with the three months ended June 30, 2016. The decrease is due primarily to a decrease in maintenance and services revenue partially offset by higher software revenue.

Total Cost of Revenue. Total cost of revenue decreased $10,000, or 6.8%, from $146,000 to $136,000 for the three months ended June 30, 2017, as compared with the three months ended June 30, 2016. The decrease is primarily due to a decrease in headcount partially offset by an increase in outside consulting.

Total Gross Margin. Gross margin was $127,000, or 48.3%, for the three months ended June 30, 2017, as compared to the gross margin of $200,000, or 57.8%, for the three months ended June 30, 2016. The decrease in gross margin is primarily due to the decrease in sales partially offset by the decrease in cost of revenue.

Total Operating Expenses. Total operating expenses decreased $68,000, or 10.3%, from $659,000 to $593,000 for the three months ended June 30, 2017, as compared with the three months ended June 30, 2016. The decrease is primarily attributable to a decrease in headcount and trade show expenses partially offset by an increase in outside consulting and legal fees.

Software Products:
Software Product Revenue. The Company earned $80,000 in software product revenue for the three months ended June 30, 2017 as compared to $12,000 in software revenue for the three months ended June 30, 2016, an increase of $68,000. The increase is primarily due to licenses ordered from two new customers.

Software Product Gross Margin. The gross margin on software products for the three months ended June 30, 2017 and June 30, 2016 was 100.0%.

Maintenance:
Maintenance Revenue. Maintenance revenue for the three months ended June 30, 2017 decreased by approximately $123,000, or 48.0%, from $256,000 to $133,000 as compared to the three months ended June 30, 2016. The decrease in maintenance revenue is primarily due to the cancellation of a maintenance contract in second quarter 2016.

Maintenance Gross Margin. Gross margin on maintenance products for the three months ended June 30, 2017 was $93,000 or 69.9% compared with $208,000 or 81.3% for the three months ended June 30, 2016. Cost of maintenance is comprised of personnel costs and related overhead for the maintenance and support of the Company’s software products. The decrease in gross margin is due to the decrease in maintenance revenue partially offset by the decrease in cost of revenue for maintenance services.

Services:
Services Revenue. Services revenue for the three months ended June 30, 2017 decreased by approximately $28,000, or 35.9%, from $78,000 to $50,000 as compared with the three months ended June 30, 2016. The decrease is primarily due to a decrease in paid engagements.

Services Gross Margin Loss. Services gross margin loss was $46,000 or 92.0% for the three months ended June 30, 2017 compared with gross margin loss of $20,000 or 25.6% for the three months ended June 30, 2016. The decrease in gross margin loss was primarily attributable to an increase in services revenue and a decrease in cost of services from a decrease in headcount.

Operating Expenses:
Sales and Marketing. Sales and marketing expenses primarily include personnel costs for salespeople, marketing personnel, travel and related overhead, as well as trade show participation and promotional expenses. Sales and marketing expenses for the three months ended June 30, 2017 decreased by approximately $61,000, or 33.5%, from $182,000 to $121,000 as compared with the three months ended June 30, 2016. The decrease is primarily attributable to a decrease in headcount and trade show expenses.

Research and Development. Research and product development expenses primarily include personnel costs for product developers and product documentation and related overhead. Research and development expense decreased by approximately $17,000, or 5.9%, from $290,000 to $273,000 for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The decrease in research and development costs for the quarter is primarily due to a decrease in headcount.

General and Administrative. General and administrative expenses consist of personnel costs for the legal, financial, human resources, and administrative staff, related overhead, and all non-allocable corporate costs of operating the Company. General and administrative expenses for the three months ended June 30, 2017 increased by approximately $12,000, or 6.4%, from $187,000 to $199,000 as compared to the three months ended June 30, 2016. The increase is primarily due to an increase in legal fees and corporate insurance partially offset by a decrease in rent expense.

Provision for Taxes. The Company’s effective income tax rate differs from the statutory rate primarily because an income tax expense/benefit was not recorded as a result of the losses in the second quarter of 2017 and 2016. As a result of the Company’s recurring losses, the deferred tax assets have been fully offset by a valuation allowance.

Net Loss. The Company recorded a net loss of $592,000 for the three months ended June 30, 2017 as compared to a net loss of $568,000 for the three months ended June 30, 2016. The increase in net loss is primarily due to the decrease in total revenue partially offset by the decrease in operating expenses.

SIX MONTHS ENDED JUNE 30, 2017 COMPARED WITH THE SIX MONTHS ENDED JUNE 30, 2016.

Total Revenues. Total revenues increased $81,000, or 10.8%, from $753,000 to $834,000, for the six months ended June 30, 2017 as compared with the six months ended June 30, 2016. The increase is due primarily to an increase in software and services revenue partially offset by lower maintenance revenue.

Total Cost of Revenue. Total cost of revenue decreased $67,000, or 19.8%, from $339,000 to $272,000 for the six months ended June 30, 2017, as compared with the six months ended June 30, 2016. The decrease is primarily due to a decrease in headcount, rent and travel expenses partially offset by an increase in outside consulting expenses.

Total Gross Margin. Gross margin was $562,000, or 67.4%, for the six months ended June 30, 2017, as compared to the gross margin of $414,000, or 55.0%, for the six months ended June 30, 2016. The increase in gross margin is primarily due to the increase in sales and decrease in cost of revenue.

Total Operating Expenses. Total operating expenses decreased $58,000, or 4.2%, from $1,370,000 to $1,312,000 for the six months ended June 30, 2017, as compared with the six months ended June 30, 2016. The decrease is primarily attributable to a decrease in headcount, rent and trade show expenses partially offset by an increase in outside consulting and legal fees.

Software Products:
Software Product Revenue. The Company earned $475,000 in software product revenue for the six months ended June 30, 2017 as compared to $23,000 in software revenue for the six months ended June 30, 2016, an increase of $452,000. The increase is primarily due to additional licenses ordered from a current customer.

Software Product Gross Margin. The gross margin on software products for the six months ended June 30, 2017 and June 30, 2016 was 100.0%.

Maintenance:
Maintenance Revenue. Maintenance revenue for the six months ended June 30, 2017 decreased by approximately $395,000, or 61.2%, from $645,000 to $250,000 as compared to the six months ended June 30, 2016. The decrease in maintenance revenue is primarily due to the cancellation of a maintenance contract in second quarter 2016.

Maintenance Gross Margin. Gross margin on maintenance products for the six months ended June 30, 2017 was $170,000 or 68.0% compared with $548,000 or 85.0% for the six months ended June 30, 2016. Cost of maintenance is comprised of personnel costs and related overhead for the maintenance and support of the Company’s software products. The decrease in gross margin is due to the decrease in maintenance revenue partially offset by the decrease in cost of revenue for maintenance services.

Services:
Services Revenue. Services revenue for the six months ended June 30, 2017 increased by approximately $24,000, or 28.2%, from $85,000 to $109,000 as compared with the six months ended June 30, 2016. The increase is primarily due to new paid engagements.

Services Gross Margin Loss. Services gross margin loss was $83,000 or 76.1% for the six months ended June 30, 2017 compared with gross margin loss of $157,000 or 184.7% for the six months ended June 30, 2016. The decrease in gross margin loss was primarily attributable to an increase in services revenue and a decrease in cost of services from a decrease in headcount.

Operating Expenses:
Sales and Marketing. Sales and marketing expenses primarily include personnel costs for salespeople, marketing personnel, travel and related overhead, as well as trade show participation and promotional expenses. Sales and marketing expenses for the six months ended June 30, 2017 decreased by approximately $123,000, or 37.2%, from $331,000 to $208,000 as compared with the six months ended June 30, 2016. The decrease is primarily attributable to a decrease in headcount and trade show expenses.

Research and Development. Research and product development expenses primarily include personnel costs for product developers and product documentation and related overhead. Research and development expense decreased by approximately $40,000, or 6.7%, from $594,000 to $554,000 for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The decrease in research and development costs is primarily due to a decrease in headcount partially offset by an increase in outside consulting expenses.

General and Administrative. General and administrative expenses consist of personnel costs for the legal, financial, human resources, and administrative staff, related overhead, and all non-allocable corporate costs of operating the Company. General and administrative expenses for the six months ended June 30, 2017 increased by approximately $105,000, or 23.6%, from $445,000 to $550,000 as compared to the six months ended June 30, 2016. The increase is primarily due to an increase in legal fees.

Provision for Taxes. The Company's effective income tax rate differs from the statutory rate primarily because an income tax expense/benefit was not recorded as a result of the losses in the first six months of 2017 and 2016. As a result of the Company's recurring losses, the deferred tax assets have been fully offset by a valuation allowance.

Net Loss. The Company recorded a net loss of $990,000 for the six months ended June 30, 2017 as compared to a net loss of $1,170,000 for the six months ended June 30, 2016. The decrease in net loss is primarily due to the increase in total revenue and the decrease in operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash

Cash and cash equivalents decreased to $40,000 at June 30, 2017 from $91,000 at December 31, 2016, a decrease of $51,000. The decrease is primarily attributable to expenses in the first six months of 2017 partially offset by collections of accounts receivable from year end, revenue generated in the first six months of 2017 and short term borrowings.

Net cash used by Operating Activities. Cash used by operations for the six months ended June 30, 2017 was $716,000 compared to $799,000 for the six months ended June 30, 2016. Cash used by operations for the six months ended June 30, 2017 was primarily due to the loss from operations of $990,000; an increase in prepaid expenses of $54,000 and a decrease of deferred revenue of $203,000, partially offset by depreciation expense of $3,000, stock option expense of $3,000, a decrease in accounts receivable of $179,000, and an increase in accounts payable and accrued expenses of $346,000.

Net cash used in Investing Activities. The Company had no purchases of equipment in the six months ended June 30, 2017 as compared to $2,000 for the six months ended June 30, 2016.

Net cash generated by Financing Activities. Net cash generated by financing activities for the six months ended June 30, 2017 was approximately $665,000, compared to $449,000 for the six months ended June 30, 2016. Cash generated

by financing activities for the six months ended June 30, 2017 was comprised primarily from short term borrowings of $665,000.

Liquidity

The Company funded its cash needs during the six months ended June 30, 2017 with cash on hand from December 31, 2016; the revenue generated in the first six months of 2017 and short term borrowings.

From time to time during 2015 through 2017, the Company entered into several short term notes payable with Mr. Steffens for various working capital needs. The notes vary from non-interest bearing to interest rate of 12% with a maturity date of December 31, 2015. The Company is obligated to repay the notes with the collection of any accounts receivables. The Company had repaid $170,000 in principal as of December 31, 2015. In December 2015, the maturity dates were extended to December 31, 2016. At December 31, 2016, the Company was indebted to Mr. Steffens in the approximate amount of $2,879,000 of principal and $1,380,000 of interest. In December 2016, the maturity dates were extended to June 30, 2017. Additionally, notes totaling $2,269,000 that were previously non-interest bearing were amended to an annual interest rate of 10%. At June 30, 2017, the Company was indebted to Mr. Steffens in the approximate amount of $3,544,500 of principal and $1,539,000 of interest. In August 2017, the Company issued 5,083 shares of its Series A preferred stock to convert its total obligation of $3,544,500 of principal and $1,538,905 of interest. (See Note 7).

In July 2017, the Company entered into notes payable totaling $190,000 with Mr. Steffens. The notes bear interest at 10% per annum. The notes are unsecured and mature on June 30, 2018. The Company is obligated to repay the note with the collection of any accounts receivables.

The Company incurred an operating loss of approximately $3,908,000 for the year ended December 31, 2016, and has a history of operating losses. For the six months ended June 30, 2017, the Company incurred a net loss of $990,000 and had a working capital deficiency of $9,356,000 as of June 30, 2017. In August 2017, the Company issued 5,083 of its Series A preferred stock and a Warrant to purchase up to 20,333,620 shares of the Company's Common Stock at an exercise price of $0.07 per share to its Chairman, John Steffens as part of a conversion of debt and interest totaling $5,083,405 improving its working capital deficiency. Management believes that its product's functionality resonates in the marketplace as both "analytics" and "automation" are topics often discussed and written about. Further, the Company believes that its repositioned strategy of expanding the indirect channel with more resale and OEM partners, will shorten the sales cycle and allow for value based selling to our customers and prospects. The Company anticipates success in this regard based upon current discussions with active partners, customers and prospects. The Company has borrowed $665,000 and $1,038,000 in 2017 and 2016, respectively.

Should the Company be unable to secure customer contracts that will drive sufficient cash flow to sustain operations, the Company will be forced to seek additional capital in the form of debt or equity financing; however, there can be no assurance that such debt or equity financing will be available on terms acceptable to the Company or at all. These factors raise substantial doubt about the Company's ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures.

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer has concluded that as of June 30, 2017, our disclosure controls and procedures were effective.

(b) Changes in Internal Controls.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer/Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).
32.1	Certification of Chief Executive Officer/Chief Financial Officer pursuant to 18 USC § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

SIGNATURE

Pursuant to the requirements 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: August 14, 2017