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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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 000-55497

Duos Technologies Group, Inc.

(Exact name of registrant as specified in its charter)

Florida

*(State or other jurisdiction of
incorporation or organization)*

65-0493217

(IRS Employer Identification No.)

**6622 Southpoint Drive South, Suite 310,
Jacksonville, Florida**

(Address of principal executive offices)

32216

(Zip Code)

Registrant's telephone number, including area code: **(904) 652-1616**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes 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.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by checkmark 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 13, 2018, Duos Technologies Group, Inc. had outstanding 21,007,157 shares of common stock, par value \$0.001 per share.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u></u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,572,051	\$ 1,941,818
Accounts receivable, net	1,391,447	298,304
Contract assets	347,565	423,793
Prepaid expenses and other current assets	<u>249,162</u>	<u>90,923</u>
Total Current Assets	<u>3,560,225</u>	<u>2,754,838</u>
Property and equipment, net	170,899	65,362
OTHER ASSETS:		
Software Development Costs, net	45,000	—
Patents and trademarks, net	<u>47,428</u>	<u>45,978</u>
Total Other Assets	<u>92,428</u>	<u>45,978</u>
TOTAL ASSETS	<u>\$ 3,823,552</u>	<u>\$ 2,866,178</u>

(Continued)

See accompanying condensed notes to the unaudited consolidated financial statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	<u>(Unaudited)</u>	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 981,310	\$ 812,618
Accounts payable - related parties	13,473	12,598
Notes payable - financing agreements	69,038	49,657
Notes payable - related parties	—	9,078
Line of credit	31,516	34,513
Payroll taxes payable	200,119	149,448
Accrued expenses	441,091	497,277
Contract liabilities	1,258,159	200,410
Deferred revenue	<u>279,375</u>	<u>438,907</u>
Total Current Liabilities	3,274,081	2,204,506
Notes payable - related party	—	39,137
Total Liabilities	<u>3,274,081</u>	<u>2,243,643</u>
Commitments and Contingencies (Note 6)		
STOCKHOLDERS' EQUITY:		
Preferred stock: \$0.001 par value, 10,000,000 authorized, 9,485,000 shares available to be designated		
Series A redeemable convertible cumulative preferred stock, \$10 stated value per share, 500,000 shares designated; 0 issued and outstanding at September 30, 2018 and December 31, 2017, convertible into common stock at \$6.30 per share		
	—	—
Series B convertible cumulative preferred stock, \$1,000 stated value per share, 15,000 shares designated; 2,830 issued and outstanding at September 30, 2018 and December 31, 2017, convertible into common stock at \$0.50 per share		
	2,830,000	2,830,000
Common stock: \$0.001 par value; 500,000,000 shares authorized, 21,010,437 and 20,657,850 shares issued, 21,007,157 and 20,654,570 shares outstanding at September 30, 2018 and December 31, 2017, respectively		
	21,010	20,658
Additional paid-in capital	27,280,249	26,608,823
Total stock & paid-in-capital	30,131,259	29,459,481
Accumulated deficit	<u>(29,433,788)</u>	<u>(28,688,946)</u>
Sub-total	697,471	770,535
Less: Treasury stock (3,280 shares of common stock)	<u>(148,000)</u>	<u>(148,000)</u>
Total Stockholders' Equity	<u>549,471</u>	<u>622,535</u>
Total Liabilities and Stockholders' Equity	<u>\$ 3,823,552</u>	<u>\$ 2,866,178</u>

See accompanying condensed notes to the unaudited consolidated financial statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
REVENUES:				
Project	\$ 4,731,106	\$ 561,022	\$ 8,516,812	\$ 1,512,628
Maintenance and technical support	371,110	288,137	881,004	914,438
IT asset management services	—	196,576	92,386	816,903
Total Revenues	5,102,216	1,045,735	9,490,202	3,243,969
COST OF REVENUES:				
Project	2,684,785	458,337	5,079,455	1,180,193
Maintenance and technical support	89,077	131,363	300,593	366,357
IT asset management services	—	68,691	47,989	328,730
Total Cost of Revenues	2,773,862	658,391	5,428,037	1,875,280
GROSS PROFIT	2,328,354	387,344	4,062,165	1,368,689
OPERATING EXPENSES:				
Selling and marketing expenses	73,468	27,104	189,092	146,031
Salaries, wages and contract labor	1,072,029	784,012	3,153,138	2,359,899
Research and development	122,755	65,984	401,116	225,982
Professional fees	63,878	87,366	187,679	292,099
General and administrative expenses	359,991	210,398	864,969	768,606
Total Operating Expenses	1,692,121	1,174,864	4,795,994	3,792,617
INCOME (LOSS) FROM OPERATIONS	636,233	(787,520)	(733,829)	(2,423,928)
OTHER INCOME (EXPENSES):				
Interest Expense	(4,589)	(1,525,894)	(14,755)	(3,279,898)
Gain on settlement of debt	—	—	—	64,647
Warrant derivative gain	—	2,188,546	—	1,901,219
Other income, net	981	—	3,742	1
Total Other Income (Expense)	(3,608)	662,652	(11,013)	(1,314,031)
NET INCOME (LOSS)	632,625	(124,868)	(744,842)	(3,737,959)
Series A preferred stock dividends	—	(5,920)	—	(17,760)
Net income (loss) applicable to common stock	\$ 632,625	\$ (130,788)	\$ (744,842)	\$ (3,755,719)
Basic Net Income (Loss) Per Share	\$ 0.03	\$ (0.07)	\$ (0.04)	\$ (1.98)
Diluted Net Income (Loss) Per Share	\$ 0.02	\$ (0.07)	\$ (0.04)	\$ (1.98)
Weighted Average Shares-Basic	20,752,450	1,899,716	20,724,153	1,896,578
Weighted Average Shares-Diluted	26,412,450	1,899,716	20,724,153	1,896,578

See accompanying condensed notes to the unaudited consolidated financial statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended	
	September 30,	
	2018	2017
Cash from operating activities:		
Net loss	\$ (744,842)	\$ (3,737,959)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	71,318	36,519
Gain on settlement of debt	—	(64,647)
Stock based compensation	403,070	—
Stock issued for services	—	40,000
Interest expense related to debt discounts of notes payable	—	3,064,086
Warrant derivative gain	—	(1,901,219)
Changes in assets and liabilities:		
Accounts receivable	(1,093,143)	(326,160)
Contract assets	76,228	131,587
Prepaid expenses and other current assets	58,934	207,936
Accounts payable	168,692	622,946
Accounts payable-related party	875	1,238
Payroll taxes payable	50,671	734,190
Accrued expenses	17,523	455,780
Contract liabilities	1,057,747	23,221
Deferred revenue	(159,532)	(333,626)
Net cash used in operating activities	(92,459)	(1,046,108)
Cash flows from investing activities:		
Software development costs	(60,000)	—
Purchase of patents/trademarks	(5,500)	—
Purchase of fixed assets	(157,804)	(22,549)
Net cash used in investing activities	(223,304)	(22,549)
Cash flows from financing activities:		
Bank overdraft		688
Repayments of line of credit	(2,997)	—
Repayments of related party notes	(48,215)	(19,911)
Repayments of insurance and equipment financing	(197,792)	(153,496)
Repayments of notes payable	—	(172,500)
Proceeds from warrants exercised	195,000	—
Proceeds of notes payable, net of 185,250 cash fees	—	1,239,750
Net cash (used in) provided by financing activities	(54,004)	894,531
Net decrease in cash	(369,767)	(174,126)
Cash, beginning of period	1,941,818	174,376
Cash, end of period	1,572,051	250
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 7,411	\$ 110,919
Supplemental Non-Cash Investing and Financing Activities:		
Common stock issued for accrued BOD fees	\$ 73,708	\$ —
Accrued interest forgiven related to note payable settlement	\$ —	\$ 20,697
Debt discount related to notes payable	\$ —	\$ 1,571,250
Note issued for financing of insurance premiums	\$ 217,173	\$ 208,201

See accompanying condensed notes to the unaudited consolidated financial statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(Unaudited)

NOTE 1 – NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Duos Technologies Group, Inc. (the “Company”), through its operating subsidiary Duos Technologies, Inc. (“duostech”) is primarily engaged in the design and deployment of state-of-the-art, artificial intelligence driven intelligent technologies systems. duostech converges traditional security measures with information technologies to create “actionable intelligence.” duostech’s IP is built upon two of its core technology platforms (praesidium® and centraco®), both distributed as licensed software suites, and natively embedded within engineered turnkey systems. praesidium® is a modular suite of analytics applications which process and simultaneously analyze data streams from a virtually unlimited number of conventional sensors and/or data points. Native algorithms compare analyzed data against user-defined criteria and rules in real time and automatically report any exceptions, deviations and/or anomalies. This application suite also includes a broad range of conventional operational system components and sub-systems, including an embedded feature-rich video management engine and a proprietary Alarm Management Service (AMS). This unique service provides continuous monitoring of all connected devices, processes, equipment and sub-systems, and automatically communicates to the front end-user interface, if and when an issue, event or performance anomalies are detected. centraco® is a comprehensive user interface that includes the functionalities of a Physical Security Information Management (PSIM) system as well as those of an Enterprise Information System (EIS). This multi-layered interface can be securely installed as a stand-alone application suite inside a local area network or pushed outside a wide area network using the same browser-based interface. It leverages industry standards for data security, access, and encryption as appropriate. The platform also operates as a cloud-hosted solution.

The Company’s strategy includes expansion of its technology base through organic development efforts, strategic partnerships, and growth through strategic acquisitions. The Company provides its broad range of technology solutions with an emphasis on mission critical security, inspection and operations within the rail transportation, commercial, petrochemical, government, and banking sectors. The Company also offers professional and consulting services for large data centers.

As reported previously, The Company previously conducted a reverse merger between duostech and a wholly owned subsidiary of Information Systems Associates, Inc., a Florida corporation (“ISA”), which became effective as of April 1, 2015 resulting in duostech becoming a wholly owned subsidiary of the merged entity. The merger was followed by a corporate name change to Duos Technologies Group, Inc., a symbol change from IOSA to DUOT and up-listing from OTC Pink to OTCQB.

ISA’s original business of IT Asset Management (ITAM) services for large data centers is now operated as a division of the Company that continues its sales efforts through strategic partners. ISA developed a methodology for the efficient data collection of assets contained within large data centers and was awarded a patent in 2010 for specific methods to collect and audit data.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (all of which are of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2018 are not indicative of the results that may be expected for the year ending December 31, 2018 or for any other future period. These unaudited consolidated financial statements and the unaudited condensed notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission (the “SEC”) on April 2, 2018.

All share and per share amounts have been presented to give retroactive effect to a 1-for-35 reverse-stock split that occurred in May 2017.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(Unaudited)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company including its wholly-owned subsidiaries, Duos Technologies, Inc. and TrueVue 360, Inc. All inter-company transactions and balances 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 disclosures 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 results may differ from these estimates. The most significant estimates in the accompanying consolidated financial statements include the allowance on accounts receivable, valuation of deferred tax assets, valuation of intangible and other long-lived assets, estimates of net contract revenues and the total estimated costs to determine progress towards contract completion, valuation of derivatives, valuation of warrants issued with debt, valuation of beneficial conversion features in convertible debt, and valuation of stock-based awards. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Concentrations

Cash Concentrations

Cash is maintained at financial institutions and at times, balances may exceed federally insured limits. We have not experienced any losses related to these balances. As of September 30, 2018, balance in one financial institution exceeded federally insured limits by approximately \$1,656,500.

Significant Customers and Concentration of Credit Risk

The Company had certain customers whose revenue individually represented 10% or more of the Company's total revenue, or whose accounts receivable balances individually represented 10% or more of the Company's total accounts receivable, as follows:

For the nine months ended September 30, 2018, two customers accounted for 47% and 36% of revenues, respectively. For the nine months ended September 30, 2017, three customers accounted for 25%, 19% and 19% of revenues, respectively.

At September 30, 2018, four customers accounted for 30%, 22%, 12%, and 10% of accounts receivable. At December 31, 2017, four customers accounted for 42%, 17%, 13% and 11% of accounts receivable, respectively.

Geographic Concentration

Approximately 49% of revenue is generated from three customers outside of the United States.

Accounting for Derivatives

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging." The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liabilities at the fair value of the instrument on the reclassification date.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(Unaudited)

Fair Value of Financial Instruments and Fair Value Measurements

We measure our financial assets and liabilities in accordance with generally accepted accounting principles. For certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their short maturities. Amounts recorded for notes payable, net of discount, and loans payable also approximate fair value because current interest rates available to us for debt with similar terms and maturities are substantially the same.

We follow accounting guidance for financial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. This guidance does not apply to measurements related to share-based payments. This guidance discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost).

The guidance utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices that are observable, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs in which little or no market data exists, therefore developed using estimates and assumptions developed by us, which reflect those that a market participant would use.

Software Development Costs

Software development costs incurred prior to establishing technological feasibility are charged to operations and included in research and development costs. The technological feasibility of a software product is established when the Company has completed all planning, designing, coding, and testing activities that are necessary to establish that the product meets its design specifications, including functionality, features, and technical performance requirements. Software development costs incurred after establishing technological feasibility for software sold as a perpetual license, as defined within ASC 985-20 (Software – Costs of Software to be sold, Leased, or Marketed) are capitalized and amortized on a product-by-product basis when the product is available for general release to customers.

Earnings (Loss) Per Share

Basic earnings per share (EPS) are computed by dividing net loss applicable to common stock by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss applicable to common stock by the weighted average number of common shares outstanding for the period and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, stock warrants, convertible debt instruments, convertible preferred stock or other common stock equivalents. Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. At September 30, 2018, there was an aggregate of 24,916,332 outstanding warrants to purchase shares of common stock. At September 30, 2018, there was an aggregate of 2,242,000 shares of employee stock options to purchase shares of common stock of which 406,000 are currently unvested. All warrants and options were excluded from the calculation of dilutive earnings per share because none of them were in the money at September 30, 2018. However, at September 30, 2018, 5,660,000 common shares issuable upon conversion of Series B convertible preferred stock, were included in the computation of dilutive earnings per share.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(Unaudited)

Revenue Recognition

As of January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2014-89, Revenue from Contracts with Customers (“ASC 606”), that affects the timing of when certain types of revenues will be recognized. The basic principles in ASC 606 include the following: a contract with a customer creates distinct unrecognized contract assets and performance obligations; satisfaction of a performance obligation creates revenue; and a performance obligation is satisfied upon transfer of control to a good or service to a customer.

Revenue is recognized for sales of systems and services over time using cost-based input methods, in which significant judgement is required to evaluate assumptions including the amount of net contract revenues and the total estimated costs to determine our progress towards contract completion and to calculate the corresponding amount of revenue to recognize.

Revenue is recognized by evaluating our revenue contracts with customers based on the five-step model under ASC 606:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to separate performance obligations; and
5. Recognize revenue when (or as) each performance obligations is satisfied.

Accordingly, the Company now bases its revenue recognition on ASC 606-10-25-27, where control of a good or service transfers over time if the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date including a profit margin or reasonable return on capital. Control is deemed to pass to the customer instantaneously as the goods are manufactured and revenue is recognized accordingly.

In addition, the Company has adopted ASC 606-10-55-21 such that if the cost incurred is not proportionate to the progress in satisfying the performance obligation, we adjust the input method to recognize revenue only to the extent of the cost incurred. Therefore, the Company will recognize revenue at an equal amount to the cost of the goods to satisfy the performance obligation. To accurately reflect revenue recognition based on the input method, the Company has adopted the implementation guidance as set out in ASC-606-10-55-187 through 192.

Segment Information

The Company operates in one reportable segment.

Stock Based Compensation

The Company accounts for employee stock-based compensation in accordance with ASC 718-10, “*Share-Based Payment*,” which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock units, and employee stock purchases based on estimated fair values.

The Company accounts for non-employee stock-based compensation in accordance with ASC 505-50-25, “*Equity Based Payments to Non-Employees*,” which requires the measurement and recognition of compensation expense for all share-based payment awards made to non-employees based on estimated fair values.

Determining Fair Value Under ASC 718-10

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing formula. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The Company’s determination of fair value using an option-pricing model is affected by the stock price as well as assumptions regarding the number of highly subjective variables.

The Company estimates volatility based upon the historical stock price of the Company and estimates the expected term for employee stock options using the simplified method for employees and directors and the contractual term for non-employees. The risk-free rate is determined based upon the prevailing rate of United States Treasury securities with similar maturities.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(Unaudited)

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flow (Topic 230). This update is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The update provides new guidance regarding the classification of debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies including bank-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitized transactions, and separately identifiable cash flows and application of the predominance principle. This standard is effective for financial statements issued by public companies for the annual and interim periods beginning after December 15, 2017. Early adoption of the standard is permitted. The standard will be applied in a retrospective approach for each period presented. We have completed an initial evaluation of this standard, which requires cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities. We have determined that there were no cash payments involved in debt extinguishment during the nine months ended September 30, 2018, hence there will be no potential impact on our financial statements due to this update. We will continue to evaluate the potential impact of this guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842)” (“ASU 2016-02”). The FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. The amendments of this ASU are effective for reporting periods beginning after December 15, 2018, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Management currently does not plan to early adopt this guidance and is evaluating the potential impact of this guidance on the consolidated financial statements as well as transition methods.

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718). This update is intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to non-employees (for example, service providers, external legal counsel, suppliers, etc.). The ASU expands the scope of Topic 718, Compensation—Stock Compensation, which currently only includes share-based payments issued to employees, to also include share-based payments issued to non-employees for goods and services. Consequently, the accounting for share-based payments to non-employees and employees will be substantially aligned. This standard will be effective for financial statements issued by public companies for the annual and interim periods beginning after December 15, 2018. Early adoption of the standard is permitted. The standard will be applied in a retrospective approach for each period presented. Management currently does not plan to early adopt this guidance and is evaluating the potential impact of this guidance on the consolidated financial statements as well as transition methods.

NOTE 2 – GOING CONCERN

As reflected in the accompanying unaudited consolidated financial statements, the Company had a net loss of \$744,842 for the nine months ended September 30, 2018. During the same period, cash used in operating activities was \$92,459. The working capital and accumulated deficit as of September 30, 2018 were \$286,144 and \$29,433,788. It is management’s opinion that these matters raise substantial doubt about the Company’s ability to continue as a going concern for a period of twelve months from the issuance date of this report.

While the company attained profitability in the three-month period ending September 30, 2018, the ability of the Company to continue as a going concern is dependent on the Company’s ability to further implement its business plan, drive significant additional revenue and achieve profitability on a sustained basis.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Effective November 24, 2017, the Company entered into a Securities Purchase Agreement (the “Securities Purchase Agreement”) and a Registration Rights Agreement (the “Registration Rights Agreement”) with accredited investors (the “Purchasers”). Pursuant to the Securities Purchase Agreement, the Purchasers purchased 16,402,742 shares of common stock, 22,068,742 purchaser warrants (the “Offering Warrants”), and 2,830 shares of Series B Preferred Stock (collectively, the “SPA Securities”) worth \$11,031,371 (including the conversion of liabilities and redemptions of shares of the Company’s Series A Preferred Stock) (the “Private Offering”). Part of the cash received was used to retire long-term debt and payables including full payment to the Internal Revenue Service, excluding accrued late fees in the amount of \$108,262, in which the Company is making monthly payments in the amount of \$15,000 which began in July 2018 to pay down the accrued late fees. The remaining cash and near-term receivables and anticipated billings of approximately \$2.1 million will be used to support operations for signed and anticipated contracts which are expected to generate revenues throughout 2018, as well as a growth plan implemented throughout 2018.

While no assurance can be provided, management believes that these actions provide the opportunity for the Company to continue as a going concern and to grow its business and achieve profitability without the requirement to raise additional capital for existing operations. Ultimately the continuation of the Company as a going concern is dependent upon the ability of the Company to execute the plan described above, generate sufficient revenue and to attain consistently profitable operations. These unaudited consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 – SOFTWARE DEVELOPMENT COSTS

At September 30, 2018, the Company capitalized \$60,000, relating to the development of new software products. These software products were developed by a third-party and had passed the preliminary project stage prior to capitalization.

Software development costs consisted of the following at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Software Development Costs	\$ 60,000	\$ —
Less: Accumulated amortization	(15,000)	—
Total	\$ 45,000	\$ —

Amortization expense of software development costs for the nine months ended September 30, 2018 and September 30, 2017 was \$15,000 and zero, respectively.

NOTE 4 – DEBT

Notes Payable - Financing Agreements

The Company’s notes payable relating to financing agreements classified as current liabilities consist of the following as of:

Notes Payable	September 30, 2018		December 31, 2017	
	Principal	Interest	Principal	Interest
Third Party - Insurance Note 1	\$ 2,219	10.30%	\$ 25,075	10.30%
Third Party - Insurance Note 2	19,804	10.00%	11,679	10.00%
Third Party - Insurance Note 3	25,818	8.80%	—	
Third Party - Insurance Note 4	21,197	10.25%	12,903	9.24%
Total	\$ 69,038		\$ 49,657	

The Company entered into an agreement on December 23, 2017 with its insurance provider by executing a \$25,075 note payable (Insurance Note 1) issued to purchase an insurance policy, secured by that policy with an annual interest rate of 10.30% payable in monthly installments of principal and interest totaling \$2,234 through October 23, 2018. The balance of Insurance Note 1 as of September 30, 2018 and December 31, 2017 was \$2,219 and \$25,075, respectively.

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The Company entered into an agreement on September 15, 2018 renewing with its insurance provider by executing a \$15,810 note payable (Insurance Note 2), secured by that policy, with an annual interest rate of 10.75% payable in monthly installments of principal and interest totaling \$1,660 through July 15, 2019. At September 30, 2018 and December 31, 2017, the balance of Insurance Note 2 was \$19,804 and \$11,679, respectively.

The Company entered into an agreement on February 3, 2018 with its insurance provider by executing a \$127,561 note payable (Insurance Note 3) issued to purchase an insurance policy, secured by that policy with an annual interest rate of 8.80% payable in monthly installments of principal and interest totaling \$13,276 through November 3, 2018. At September 30, 2018 and December 31, 2017, the balance of Insurance Note 3 was \$25,818 and zero, respectively.

The Company entered into an agreement on April 15, 2017 with its insurance provider by executing a \$49,000 note payable (Insurance Note 4) issued to purchase an insurance policy, secured by that policy with an annual interest rate of 9.24% payable in monthly installments of principal and interest totaling \$4,373 through February 15, 2018. The policy renewed on April 15, 2018 in the amount of \$49,000 with an annual interest rate of 10.25% payable in monthly installments of principal and interest totaling \$4,378. At September 30, 2018 and December 31, 2017, the balance of Insurance Note 4 was \$21,197 and \$12,903, respectively.

Notes Payable - Related Parties

The Company's notes payable to related parties classified as current liabilities consist of the following as of:

Notes Payable	September 30, 2018		December 31, 2017	
	Principal	Interest	Principal	Interest
CEO	\$ —	8%	\$ 9,078	8%
Sub-total current portion	—		9,078	
Add long-term portion-CEO	—		39,137	
Total	\$ —		\$ 48,215	

On July 19, 2016, the Company received a \$60,000 loan less fees of \$75 for a related party loan with proceeds of \$59,925 from the Company's CEO. The promissory note carries an annual interest rate of 7.99% with a monthly installment payment of \$1,052 through July 19, 2022. On January 5, 2018, the Company repaid the loan in full from the funds received in November 2017 as a result of that capital raise. As of September 30, 2018, and December 31, 2017, the outstanding balance was zero and \$48,215, respectively.

NOTE 5 – LINE OF CREDIT

The Company assumed a line of credit with Wells Fargo Bank upon merger with ISA on April 1, 2015. The line of credit provided for borrowings up to \$40,000 but is now closed to future borrowing. The balance as of September 30, 2018 and December 31, 2017, was \$31,516 and \$34,513, respectively, including accrued interest. This line of credit has no maturity date. The annual interest rate is 11.5% at September 30, 2018. The former CEO of ISA is the personal guarantor.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Delinquent Payroll Taxes Payable

As of the date hereof, the Company has paid its payroll taxes in full and the Company had appealed the IRS penalty payments for a reduction which was under review. The IRS has since responded, and the Company will be required to repay the penalties in connection with the delinquent payroll taxes. At September 30, 2018, the payroll taxes payable balance of \$200,119 includes accrued late fees in the amount of \$138,572. The Company has started making monthly payments in the amount of \$15,000 starting in July 2018 to pay down the accrued late fees.

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Licensing Agreement

The Company has entered into a new software license and configuration services agreement with a third-party vendor. The annual support and maintenance fees of approximately \$300,000 include support and updates to the vendor's Gateway software and customer access to their services (including web application, mobile application, and associated APIs) for gateway configuration, gateway monitoring and management, application configuration, application management, and automatic model updates.

The Company has also entered into a SaaS Agreement with the same vendor that is an Amazon AWS-hosted software service enabling the automation of visual observation tasks using deep convolutional neural networks and other computer vision techniques. It consists of a public API, web application, iPhone application, and associated backend services. The system supports the labeling of example image data, the automatic building of classification, detection, localization, measuring and counting applications based on the labeled example data, and the run-time deployment of the trained application models.

NOTE 7 – RELATED PARTIES

Letter Agreements

In connection with the closing of the Company's Private Offering of common stock and warrants to purchase shares of the Company's common stock on November 24, 2017, (i) Gianni B. Arcaini, the Chief Executive Officer, converted \$700,543 of accrued salary into 700,543 shares of the Company's common stock at \$1.00 per share and was issued 700,543 warrants to purchase shares of common stock of the Company at an exercise price of \$1.00 per share, expiring five years from the grant date; and (ii) Adrian G. Goldfarb, the Chief Financial Officer of the Company, converted \$34,020 of liabilities into 34,020 shares of the Company's common stock at \$1.00 per share and was issued 34,020 warrants to purchase shares of common stock of the Company at an exercise price of \$1.00 per share, expiring five years from the grant date.

As of September 30, 2018, and December 31, 2017, there was one note payable to the CEO, totaling zero and \$48,215, respectively. (see Note 4)

NOTE 8 – STOCKHOLDERS' EQUITY

Common stock issued for board of director fees

During the first quarter of 2018, the Company issued 52,209 shares of common stock totaling \$73,708 for partial consideration in lieu of cash owed to independent members of the board of directors for their service in such capacity. These shares were valued at \$26,105 or \$0.50 based on a recent private investor offering, with a gain on settlement for \$26,103 charged to additional paid in capital.

Common stock issued for exercise of warrants

During the third quarter of 2018, an existing shareholder who participated in the Private Offering elected to exercise certain Offering Warrants that were granted as a result of that investment. The Warrants are covered by a Registration Statement that became effective on December 29, 2017. The shareholder tendered \$195,000 to the Company and the Company issued 300,000 shares of common stock in exchange. The shares are immediately available for sale.

Stock-Based Compensation

Stock-based compensation expense recognized under ASC 718-10 for the nine months ended September 30, 2018, was \$403,070 for stock options granted to employees and directors. This expense is included in selling, general and administrative expenses in the unaudited consolidated statements of operations. Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. At September 30, 2018, the total compensation cost for stock options not yet recognized was approximately \$67,407. This cost will be recognized over the remaining vesting term of the options of approximately 2½ years.

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Employee Stock Options

A maximum of 2,500,000 shares were made available for grant under the 2016 Plan, as amended, and all outstanding options under the Plan provide a cashless exercise feature. The identification of individuals entitled to receive awards, the terms of the awards, and the number of shares subject to individual awards, are determined by our Board of Directors or the Compensation Committee, at their sole discretion. The aggregate number of shares with respect to which options or stock awards may be granted under the 2016 Plan and the purchase price per share, if applicable, shall be adjusted for any increase or decrease in the number of issued shares resulting from a stock dividend, stock split, reverse stock split, recapitalization or similar event. As of September 30, 2018, and December 31, 2017, options to purchase 2,242,000 and zero shares of common stock were outstanding under the 2016 Plan, respectively.

The Company has no expired employee stock options at September 30, 2018.

	September 30, 2018	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	—	\$ —
Granted	2,242,000	\$ 1.00
Exercised	—	\$ —
Forfeited	—	\$ —
Expired	—	\$ —
Outstanding at September 30, 2018	2,242,000	\$ 1.00
Exercisable at September 30, 2018	1,836,000	\$ 1.00
Outstanding		
Weighted average remaining contractual term		4.75
Aggregate intrinsic value		\$ —
Weighted average grant date fair value (per share)		\$ 0.21
Exercisable		
Weighted average remaining contractual term		4.75
Aggregate intrinsic value		—

Warrants

The following is a summary of activity for warrants to purchase common stock for the nine months ended September 30, 2018:

	September 30, 2018		
	Number of Warrants	Weighted Avg. Exercise Price	Remaining Contractual Life (Years)
Outstanding at the beginning of the year	25,216,332	\$.65	4.9
Warrants expired	—		
Warrants issued	—		
Warrants cancelled/exercised	(300,000)		
Outstanding at end of period	24,916,332	.65	4.1
Exercisable at end of period	24,916,332	\$.65	4.1

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During the third quarter of 2018, the Company received \$195,000 for 300,000 shares of common stock as a result of the exercise of Offering Warrants.

NOTE 9 - REVENUE

Revenue Recognition and Contract Accounting

The Company generates revenue from three sources: (1) Project Revenue; (2) Maintenance and Technical Support and (3) IT Asset Management (consulting and auditing).

The Company constructs intelligent technology systems consisting of materials and labor under customer contracts. Revenues and related costs on project revenue are recognized based on ASC 606-10-25-27, where control of a good or service transfers over time if the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date including a profit margin or reasonable return on capital. Control is deemed to pass to the customer instantaneously as the goods are manufactured and revenue is recognized accordingly.

In addition, the Company has adopted ASC 606-10-55-21 such that if the cost incurred is not proportionate to the progress in satisfying the performance obligation, we adjust the input method to recognize revenue only to the extent of the cost incurred. Therefore, the Company will recognize revenue at an equal amount to the cost of the goods to satisfy the performance obligation. To accurately reflect revenue recognition based on the input method, the Company has adopted the implementation guidance as set out in ASC 606-10-55-187 through 192.

Under this method, contract revenues are recognized over the performance period of the contract in direct proportion to the costs incurred. Costs include direct material, direct labor, subcontract labor and other allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are also charged to the periods as incurred. Any recognized revenues that have not been billed to a customer are recorded as an asset in "contract assets". Any billings of customers more than recognized revenues are recorded as a liability in "contract liabilities". However, in the event a loss on a contract is foreseen, the Company will recognize the loss when such loss is determined.

NOTE 10 - NET INCOME (LOSS) PER SHARE

The Company has 27,158,332 outstanding options and warrants to acquire common stock as of September 30, 2018. They are not included in the computation of net loss per common share for the nine months ended September 30, 2018 because the effects of inclusion would be anti-dilutive.

For the three months ended September 30, 2018, basic net income (loss) per common share applicable to common stockholders was computed based on the weighted average number of common shares outstanding during the period. Diluted net loss per common share applicable to common stockholders was computed based on the weighted average number of common shares and dilutive securities outstanding. Dilutive securities having an anti-dilutive effect on diluted net loss per common share were excluded from the calculation. There were 27,158,332 out-of-the-money stock options and warrants excluded from the computation of diluted earnings per share for the three months ended September 30, 2018.

Basic and diluted net income per share, for the three months ended September 30, 2018, were calculated as follows:

	Basic	Diluted
Numerator		
Net income applicable to common stock	\$ 632,625	\$ 632,625
	<u>\$ 632,625</u>	<u>\$ 632,625</u>
Denominator		
Weighted average common shares outstanding	20,752,450	20,752,450
Preferred Stock	—	5,660,000
Warrants and options	—	—
	<u>20,752,450</u>	<u>26,412,450</u>
Net income per share	<u>\$ 0.03</u>	<u>\$ 0.02</u>

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NOTE 11 – CONTRACT ACCOUNTING

Contract Assets

Contract assets on uncompleted contracts represents costs and estimated earnings in excess of billings and/or cash received on uncompleted contracts accounted for under the input method, which recognizes revenue only to the extent of the cost incurred.

At September 30, 2018 and December 31, 2017, contract assets on uncompleted contracts consisted of the following:

	September 30, 2018	December 31, 2017
Costs and estimated earnings recognized	\$ 1,026,938	\$ 1,613,731
Less: Billings or cash received	(679,373)	(1,189,938)
Contract assets	<u>\$ 347,565</u>	<u>\$ 423,793</u>

Contract Liabilities

Contract liabilities on uncompleted contracts represents billings and/or cash received that exceed accumulated revenues recognized on uncompleted contracts accounted for under the input method, which recognizes revenue only to the extent of the cost incurred.

At September 30, 2018 and December 31, 2017, contract liabilities on uncompleted contracts consisted of the following:

	September 30, 2018	December 31, 2017
Billings and/or cash receipts on uncompleted contracts	\$ 8,446,856	\$ 573,847
Less: Costs and estimated earnings recognized	(7,188,697)	(373,437)
Contract liabilities	<u>\$ 1,258,159</u>	<u>\$ 200,410</u>

A contract is considered complete when all costs except insignificant items have been incurred and the installation is operating according to specifications or has been accepted by the customer.

The Company has contracts in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Costs estimates are reviewed periodically on a contract-by-contract basis throughout the life of the contract such that adjustments to the profit resulting from revisions are made cumulative to the date of the revision. Significant management judgments and estimates, including the estimated costs to complete projects, must be made and used in connection with the revenue recognized in the accounting period. Current estimates may be revised as additional information becomes available.

Maintenance and Technical Support

Maintenance and technical support services are provided on both an as-needed and extended-term basis and may include providing both parts and labor. Maintenance and technical support provided outside of a maintenance contract are on an as-requested basis, and revenue is recognized as the services are provided. Revenue for maintenance and technical support provided on an extended-term basis is recognized ratably over the term of the contract.

For sales arrangements that do not involve multiple elements such as professional services, which are of short-term duration, revenues are recognized when services are completed.

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IT Asset Management Services (“ITAM”)

The Company’s ITAM business generates revenues under contract with customers from three sources: (1) Professional Services (consulting and auditing); (2) Software licensing with optional hardware sales; and (3) Customer Service (training and maintenance support).

For sales arrangements that do not involve performance obligations:

- (1) Revenues for professional services, which are of short-term duration, are recognized when services are completed;
- (2) For all periods reflected in this report, software license sales have been one-time sales of a perpetual license to use our software product and the customer also has the option to purchase third party manufactured handheld devices from us if they purchase our software license. Accordingly, the revenue is recognized upon delivery of the software and delivery of the hardware, as applicable, to the customer;
- (3) Training sales are one-time upfront short-term training sessions and are recognized after the service has been performed; and
- (4) Maintenance/support is an optional product sold to our software license customers under one-year contracts. Accordingly, maintenance payments received upfront are deferred and recognized over the contract term.

Multiple Elements

Arrangements with customers may involve multiple elements including project revenue and maintenance services in our Intelligent Technology Systems business. Maintenance will occur after the project is completed and may be provided on an extended-term basis or on an as-needed basis. In our ITAM business, multiple elements may include any of the above four sources. Training and maintenance on software products may occur after the software product sale while other services may occur before or after the software product sale and may not relate to the software product. Revenue recognition for multiple element arrangement is as follows:

Each element is accounted for separately when each element has value to the customer on a standalone basis and there is Company specific objective evidence of selling price of each deliverable. For revenue arrangements with multiple deliverables, the Company allocates the total customer arrangement to the separate units of accounting based on their relative selling prices as determined by the price of the items when sold separately. Once the selling price is allocated, the revenue for each element is recognized using the applicable criteria under GAAP as discussed above for elements sold in non-multiple element arrangements. A delivered item or items that do not qualify as a separate unit of accounting within the arrangement are combined with the other applicable undelivered items within the arrangement. The allocation of arrangement consideration and the recognition of revenue is then determined for those combined deliverables as a single unit of accounting. The Company sells its various services and software and hardware products at established prices on a standalone basis which provides Company specific objective evidence of selling price for purposes of multiple element relative selling price allocation. The Company only sells maintenance services or spare parts based on its established rates after it has completed a system integration project for a customer. The customer is not required to purchase maintenance services. All elements in multiple element arrangements with Company customers qualify as separate units of account for revenue recognition purposes.

Deferred Revenue

Deferred revenues represent billings or cash received in excess of revenue recognizable on service agreements that are not accounted for under the percentage of completion method.

Disaggregation of Revenue

The Company is following the guidance of ASC 606-10-55-296 and 297 for disaggregation of revenue. Accordingly, revenue has been disaggregated according to the nature, amount, timing and uncertainty of revenue and cash flows. We are providing qualitative and quantitative disclosures.

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Qualitative:

1. We have three distinct revenue sources:
 - a. Turnkey, engineered projects;
 - b. Associated maintenance and support services; and
 - c. Professional services related to auditing of data center assets.
2. We currently operate in North America including the USA, Mexico and Canada.
3. Our customers include rail transportation, commercial, petrochemical, government, banking and IT suppliers.
4. Our contracts are fixed-price and fall into two duration types:
 - a. Turnkey engineered projects and professional service contracts that are less than 1 year in duration and are typically three to nine months in length; and
 - b. Maintenance and support contracts ranging from one to five years in length.
5. Transfer of goods and services are over time.

Quantitative:

For the Three Months Ended September 30, 2018

<u>Segments</u>	<u>Rail</u>	<u>Commercial</u>	<u>Petrochemical</u>	<u>Government</u>	<u>Banking</u>	<u>IT Suppliers</u>	<u>Total</u>
<u>Primary Geographical Markets</u>							
North America	\$ 4,045,590	\$ 1,013,796	\$ 33,481	\$ 9,349	\$ —	\$ —	\$ 5,102,216
<u>Major Goods and Service Lines</u>							
Turnkey Projects	\$ 3,712,399	\$ 1,013,796	\$ 15,783	\$ (10,872)	\$ —	\$ —	\$ 4,731,106
Maintenance & Support	333,191	—	17,698	20,221	—	—	371,110
Data Center Auditing Services	—	—	—	—	—	—	—
	<u>\$ 4,045,590</u>	<u>\$ 1,013,796</u>	<u>\$ 33,481</u>	<u>\$ 9,349</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,102,216</u>
<u>Timing of Revenue Recognition</u>							
Goods transferred over time	\$ 3,712,399	\$ 1,013,796	\$ 15,783	\$ (10,872)	\$ —	\$ —	\$ 4,731,106
Services transferred over time	333,191	—	17,698	20,221	—	—	371,110
	<u>\$ 4,045,590</u>	<u>\$ 1,013,796</u>	<u>\$ 33,481</u>	<u>\$ 9,349</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,102,216</u>

NOTE 12 – SUBSEQUENT EVENTS

On October 10, 2018, the Company's Board of Directors approved the issuance of an aggregate of 496,215 five-year warrants with an exercise price of \$0.65 to six investors.

On October 10, 2018, the Company's Board of Directors approved the issuance of up to 92,033 shares in exchange for \$92,033 of accrued salary owed to a former officer of the Company.

On October 24, 2018 the Company was notified by counsel handling a claim by the Company against a vendor that the vendor's motion for dismissal on certain part of the Company's claim was denied by the Court. Although the claim by the Company is valued currently at less than \$50,000, the denial by the Court bolsters the Company's claim against the vendor. The Company is continuing to pursue the claim unless an acceptable settlement can be reached in this matter.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation.

This Form 10-Q and other reports or schedules filed by the Company from time to time with the U.S. Securities and Exchange Commission (collectively, the “Filings”) contain or may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the Filings, the words “may,” “will,” “will likely result,” “project,” “continue,” “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” or the negative of these terms and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to many uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based.

Any one or more of these uncertainties, risks, and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result. The following discussion should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this report.

Overview

Duos Technologies Group, Inc. was incorporated in Florida on May 31, 1994 (the “Company”) under the original name of Information Systems Associates, Inc. (“ISA”). Initially, our business operations consisted of consulting services for asset management of large corporate data centers and the development and licensing of information technology (“IT”) asset management software. In late 2014, ISA entered negotiations with Duos Technologies, Inc. (“duostech”), for the purposes of executing a reverse triangular merger. This transaction was completed on April 1, 2015, whereby duostech became a wholly owned subsidiary of the Company. duostech was incorporated under the laws of Florida on November 30, 1990 for design, development and deployment of proprietary technology applications and turn-key engineered systems. The Company, based in Jacksonville, Florida, employs approximately 50 people and is a technology and software applications company with a strong portfolio of intellectual property. The Company’s core competencies, including advanced intelligent technologies, are delivered through its proprietary integrated enterprise command and control platform, *centraco*®.

The Company, through its operating subsidiary duostech, is primarily engaged in the design and deployment of advanced, artificial intelligence driven intelligent technologies systems. The Company converges traditional security measures with information technologies to create “actionable intelligence.”

The Company’s growth strategy includes expansion of its technology base through organic development efforts, strategic partnerships, and through strategic acquisitions. The Company provides its broad range of technology solutions with an emphasis on mission critical security, inspection and operations within the rail transportation, commercial, petrochemical, government, and banking sectors. The Company also offers professional and consulting services for large data centers.

Specifically, based upon the current and anticipated business growth, the Company is investing in resources to focus on execution within its target markets, including but not limited to rail, distribution centers and security. We continue to evaluate key requirements within those markets and add development resources to allow us to compete for additional projects to drive additional revenue growth.

Further, the Company is broadening its offerings in the IT asset management (“ITAM”) space for large data centers. During the quarter ended June 30, 2018, the Company announced its new dcVue software platform which is the basis for expanded offerings into this market area. The dcVue offering is a new software platform that replaces the Company’s On-Site Physical Inventory (OSPI) system that was commercially marketed from 2010 until 2015. OSPI was used by Duos’ ITAM auditing teams until early this year and has now been replaced by dcVue. dcVue is based upon the Company’s OSPI patent which was awarded in 2010. The Company will be making dcVue available for license to our customers later this year as a licensed software product. We intend to further develop our ITAM offerings for large data centers with the objective of offering existing Company technologies for data and video analytics. The Company implemented a new plan to expand and focus its sales efforts through the addition of strategic partners.

Prospects and Outlook

Over the past several years, we have made substantial investments in product research and development and achieved significant milestones in the development of our technology and turnkey solutions. We have made significant progress in penetrating the market with our proprietary technology solutions, specifically in the rail industry which is currently undergoing a major shift in maintenance strategies. We believe that this shift will be a significant motivating factor for the industry’s use of our technologies.

Our business success in the immediate future will largely depend on the increased penetration into our target markets for our proprietary intelligent analytical technology solutions.

Notwithstanding the above, no assurance can be provided that our product offerings will generate the market acceptance and orders that we contemplate.

Results of Operation

The following discussion should be read in conjunction with the unaudited financial statements included in this report.

Comparison for the Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

The following table sets forth a modified version of our unaudited Consolidated Statements of Operations that is used in the following discussions of our results of operations:

	For the Three Months Ended September 30,	
	2018	2017
Revenue	\$ 5,102,216	\$ 1,045,735
Cost of revenue	<u>2,773,862</u>	<u>658,391</u>
Gross profit	2,328,354	387,344
Operating expenses	<u>1,692,121</u>	<u>1,174,864</u>
Income (Loss) from operations	636,233	(787,520)
Other income (expense)	<u>(3,608)</u>	<u>662,652</u>
Net income (loss)	632,625	(124,868)
Series A preferred stock dividends	—	(5,920)
Net income (loss) applicable to common stock	<u>\$ 632,625</u>	<u>\$ (130,788)</u>

Revenues

	For the Three Months Ended September 30, 2018		
	2018	2017	% Change
Revenues:			
Projects	\$ 4,731,106	\$ 561,022	743%
Maintenance and technical support	371,110	288,137	29%
IT asset management services	—	196,576	-100%
Total revenue	<u>\$ 5,102,216</u>	<u>\$ 1,045,735</u>	388%

The significant increase in overall revenues is driven by the current strength of the projects portion of our business currently being undertaken. The Company's stable capital structure enables us to more aggressively pursue large projects requiring the ability to deploy major resources. The significant increase in project revenues was also accompanied by an increase in maintenance and technical support as the result of a onetime customer change order offset by a decreasing revenue contribution from one legacy customer. The underlying reduction in maintenance and technical support reflects the shift away from some older legacy systems and a shift to the next generation of technology systems which are currently being installed. The Company expects to replace the declining revenues from this one customer with new, long term recurring revenue from new customers which will be coming on-line in the next several months. The maintenance and technical support revenues are driven by successful completion on projects and represent services and support for those installations. The expectation is that revenues from this area will be flat for the rest of this year and then begin to grow based on the success of installations in 2018.

The ITAM division recorded no revenues in the fiscal quarter ended September 30, 2018. The reduction in ITAM services is due to the conclusion of a large project late in 2017 and delays in starting a new project that was anticipated to begin earlier in the year. The ITAM division released a new version of its software which is anticipated to broaden market acceptance of its offerings and we anticipate a positive impact on revenues anticipated in 2019.

Cost of Revenues

	For the Three Months Ended September 30, 2018		
	2018	2017	% Change
Cost of revenues:			
Projects	\$ 2,684,785	\$ 458,337	486%
Maintenance and technical support	89,077	131,363	-32%
IT asset management services	—	68,691	-100%
Total cost of revenues	<u>\$ 2,773,862</u>	<u>\$ 658,391</u>	321%

Cost of revenues on projects increased in line with the large increase in revenues. The overall gross margin was positively impacted during the period compared to the equivalent period in 2017 due to tighter cost controls on production of systems and the efficiencies gained through the implementation of projects at the Operations and Engineering Center prior to customer deployment. Cost of Revenues decreased on maintenance and technical support representing a shift in the customer base. The Company also completed certain field work at the request of two major clients which increased revenue but at a margin that is less than in the normal course of business. The effect of this is anticipated to be minimal in the future.

Gross Profit

	For the Three Months Ended September 30, 2018		
	2018	2017	% Change
Revenues	\$ 5,102,216	\$ 1,045,735	388%
Cost of revenues	2,773,862	658,391	321%
Gross profit	<u>\$ 2,328,354</u>	<u>\$ 387,344</u>	501%

Gross Profit was \$2,328,354 or 46% of revenues compared to \$387,344 or 37% of revenues for the three months ended September 30, 2018 and 2017, respectively. The overall increase in gross profit of 501% was mainly the result of the increase in project revenues and the positive effect of revenue increases from new projects. As previously discussed, the implementation of ASC 606 covering revenue from contracts with customers, had a temporary impact on overall gross margin during previous reporting periods as certain costs were recognized ahead of revenues. During the period, certain project revenue related to the management of construction requested by two customers were treated as a pass through and have between a 10% and a 25% gross margin. This has a negative overall effect on the typical project gross margin of at least 50% gross margin. Management anticipates the overall gross margins for the business to be close to historical norms for the full year excluding the impact of “one-off” lower margin revenues related to field construction work requested by the customer and not in the ordinary course of business.

Operating Expenses

	For the Three Months Ended		
	September 30, 2018		
	2018	2017	% Change
Operating expenses:			
Selling and marketing expenses	\$ 73,468	\$ 27,104	171%
Salaries, wages and contract labor	1,072,029	784,012	37%
Research and development	122,755	65,984	86%
Professional fees	63,878	87,366	-27%
General and administration	359,991	210,398	71%
Total operating expense	<u>\$ 1,692,121</u>	<u>\$ 1,174,864</u>	44%

Operating expenses were higher by 44% for the equivalent period in 2017 reflecting the increase in resources related to the significant increase in revenues for the period. Selling and marketing expenses and research and development both increased in line with the Company's investment in resources to grow the business. The 4% increase in salaries, wages and contract labor is higher during the period due to an increase number of employees and additional contract expenses related to an overall significant increase in revenues. Professional fees were lower due to a reduction in expenses related to legal fees. Other G&A costs were in line with the additional staff expenses and the growth of the Company. It is anticipated that operating expenses will grow at a slower rate than the revenue increases.

Income (Loss) Before Other Expense

The income from operations for the three months ended September 30, 2018 was \$636,233 and the loss from operations for the same period in 2017 was \$787,520. The 181% increase in income from operations was mostly due to the overall increase in revenue for the period along with an increase in gross margin and a lower overall rate of increase in operating expenses.

Interest Expense

Interest expense for the three months ended September 30, 2018 and 2017 was \$4,589 and \$1,525,894 respectively. The almost 100% decrease in interest expense in 2018 was entirely due to the elimination of non-cash charges incurred during 2017 in connection with debt discount and warrant amortization expense related to debt financing in 2016 that was subsequently repaid in late 2017.

Other Income

Other income for the three months ended September 30, 2018 and 2017 was \$981 and zero, respectively. The increase in other income is interest income earned on the money market banking account established in December 2017.

Net Income (Loss)

The net income for the three months ended September 30, 2018 was \$632,625 and a net loss for the same period in 2017 was \$124,868, a 607% increase. The \$757,493 increase in net income is primarily attributable to the increase in project revenue. The 2017 net loss was reduced by the \$2,188,546 warrant derivative gain on debt related to debt financing and offset by the non-cash charges of \$1,525,894 in debt discount expense. The loss applicable to common stock in the third quarter of 2017 reflected a charge for preferred stock dividends of \$5,920. Net income (loss) per common share was \$0.03 and \$(0.07) for the three months ended September 30, 2018 and 2017, respectively. The net income per common share was \$0.02 on a dilutive basis.

Comparison for the Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

The following table sets forth a modified version of our unaudited Consolidated Statements of Operations that is used in the following discussions of our results of operations:

	For the Nine Months Ended September 30,	
	2018	2017
Revenue	\$ 9,490,202	\$ 3,243,969
Cost of revenue	5,428,037	1,875,280
Gross profit	4,062,165	1,368,689
Operating expenses	4,795,994	3,792,617
Loss from operations	(733,829)	(2,423,928)
Other expense	(11,013)	(1,314,031)
Net loss	(744,842)	(3,737,959)
Series A preferred stock dividends	—	(17,760)
Net loss applicable to common stock	\$ (744,842)	\$ (3,755,719)

Revenues

	For the Nine Months Ended September 30, 2018		
	2018	2017	% Change
Revenues:			
Projects	\$ 8,516,812	\$ 1,512,628	463%
Maintenance and technical support	881,004	914,438	-4%
IT asset management services	92,386	816,903	-89%
Total revenues	\$ 9,490,202	\$ 3,243,969	193%

The significant increase in overall revenues is being driven by the current strength in the projects business. The overall improvement in project revenues was offset during the period by reductions in both the maintenance and technical support and ITAM services revenues. As previously described, the maintenance and technical support revenues are driven by successful completion on projects and represent services and support for those installations. The reduction reflects the shift away from some legacy systems and shift to the next generation of systems which are currently being installed. The expectation is that revenues from this area will be flat for the rest of this year and then begin to grow based on the success of installations in 2018.

The reduction in ITAM services is due to the conclusion of a large project late in 2017 and delays in starting a new project that was anticipated to begin earlier in the year. The ITAM division released a new version of its software which is anticipated to broaden market acceptance of its offerings and we anticipate a positive impact on revenues in 2019.

Cost of Revenues

	For the Nine Months Ended September 30, 2018		
	2018	2017	% Change
Cost of revenues:			
Projects	\$ 5,079,455	\$ 1,180,193	330%
Maintenance and technical support	300,593	366,357	-18%
IT asset management services	47,989	328,730	-85%
Total cost of revenues	\$ 5,428,037	\$ 1,875,280	189%

The cost of revenues on projects increased along with the increase in revenues but at a slower overall rate which is a positive trend. The overall gross margin slightly increased compared to the equivalent period in 2017. During the period, certain project revenue related to the management of construction requested by two customers were treated as a pass through and have between a 10% and a 25% gross margin. This has a negative overall effect on the typical project gross margin of at least 50% gross margin that the Company is currently executing. ITAM cost of revenues were significantly lower in line with lower revenues during the period. ITAM costs are directly variable to the revenues due to the nature of this type of work and the extensive use of specialized contractors for implementation.

Gross Profit

	For the Nine Months Ended September 30, 2018		
	2018	2017	% Change
Revenues	\$ 9,490,202	\$ 3,243,969	193%
Cost of revenues	5,428,037	1,875,280	189%
Gross profit	\$ 4,062,165	\$ 1,368,689	197%

Gross Profit was \$4,062,165, a 197% increase compared to \$1,368,689 for the nine months ended September 30, 2018 and 2017, respectively. As previously discussed, the implementation of ASC 606 covering revenue from contracts with customers, had a temporary impact on overall gross margin during previous reporting periods as certain costs were recognized ahead of revenues. During the period, certain project revenue related to one-off construction costs requested by two customers were treated as a pass through and have between a 10% and a 25% gross margin. Management anticipates the overall gross margins for the business to be close to historical norms for the full year.

Operating Expenses

	For the Nine Months Ended September 30, 2018		
	2018	2017	% Change
Operating expenses:			
Selling and marketing expenses	\$ 189,092	\$ 146,031	29%
Salaries, wages and contract labor	3,153,138	2,359,899	34%
Research and development	401,116	225,982	77%
Professional fees	187,679	292,099	-36%
General and administration	864,969	768,606	13%
Total operating expense	\$ 4,795,994	\$ 3,792,617	26%

Operating expenses were higher by 26% than for the equivalent period in 2017. Research and development expenses increased in line with the Company's investment in resources to grow the business. The 34% increase in salaries, wages and contract labor is higher during the period due to increases in staff during the third quarter of 2018, in addition to a certain non-cash charge taken for the employee stock option plan in the second quarter of 2018. The total amount for this grant was \$403,070, which was non-cash in nature. Excluding this item, salaries and wages grew by 16% over the equivalent period one year before. Professional fees are 36% lower due to lower expenses related to legal fees. Other G&A costs were slightly higher than the equivalent quarter in 2017. Overall, considering the non-cash stock options grant, overall expenses were up only 16% for the period and significantly below the rate of increase in revenues even if the non-cash compensation is included in this measurement. This is a positive indicator as the Company moves to reduce its historical losses and move towards operational breakeven.

Loss Before Other Income (Expense)

The loss from operations for the nine months ended September 30, 2018 and 2017 was \$733,829 and \$2,423,928, respectively. The 70% decrease in loss from operations was mostly due to the overall increase in revenue for the period, offset by the lower margin generated on some one-time construction work on behalf of two large customers as a part of projects implemented in 2018. The improvement in overall operating margins is expected to continue through the rest of 2018 as projects are completed.

Interest Expense

Interest expense for the nine months ended September 30, 2018 and 2017 was \$14,755 and \$3,279,898 respectively. The 100% decrease in interest expense in 2018 was almost entirely due to the elimination of non-cash charges incurred during 2017 in connection with debt discount and warrant amortization expense related to debt financing in 2016 that was subsequently repaid in late 2017.

Other Income

Other income for the nine months ended September 30, 2018 and 2017 was \$3,742 and \$1, respectively. The increase in other income is interest income earned on the money market banking account established in December 2017.

Net Loss

The net loss for the nine months ended September 30, 2018 and 2017 was \$744,842 and \$3,737,959, respectively, an 80% decrease. The \$2,993,117 decrease in net loss is primarily attributable to the non-cash charges in 2017 of \$3,279,898 in debt discount expense offset with \$1,901,219 warrant derivative gain on debt related to debt financing in addition to a gain on settlement of debt in the amount of \$64,647. Net loss applicable to common stock was \$744,842 in 2018 versus \$3,755,719 in 2017, a decrease of \$3,010,877. The loss applicable to common stock through the third quarter of 2017 reflected a charge for preferred stock dividends of \$17,760. The Company's Series A Preferred stock was retired in full at the end of 2017. Net loss per common share was \$(0.04) and \$(1.98) for the nine months ended September 30, 2018 and 2017, respectively.

Liquidity and Capital Resources

As of September 30, 2018, the Company has a working capital of \$286,144, including \$1,572,051 of cash. We have incurred net loss of \$744,842 for the nine months ended September 30, 2018.

Cash Flows

The following table sets forth the major components of our statements of cash flows data for the periods presented:

	September 30, 2018	September 30, 2017
Net cash used in operating activities	\$ (92,459)	\$ (1,046,108)
Net cash used in investing activities	(223,304)	(22,549)
Net cash used/provided in financing activities	(54,004)	894,531
Net decrease in cash	<u>\$ (369,767)</u>	<u>\$ (174,126)</u>

Net cash used in operating activities for the nine months ended September 30, 2018 was \$92,459 and net cash used during the same period of 2017 was \$1,046,108. The decrease in net cash used in operations for the nine months ended September 30, 2018 was almost exclusively due to a more than \$1.03 million increase in contract liabilities most of which will be eliminated by year end by contract completions.

Net cash used in investing activities for the nine months ended September 30, 2018 and 2017 were \$223,304 and \$22,549, respectively representing an increase in investments in software development and lab equipment during the nine months of 2018.

Net cash used in financing activities for the nine months ended September 30, 2018 was \$54,004 and cash flows provided in the same period 2017 was \$894,531. Cash flows used in financing activities during 2018 were primarily attributable to repayments of existing notes and short-term credit facilities. Cash flows provided by financing activities during 2017 were primarily attributable to proceeds from the draws on notes payable, partially offset by repayments of existing notes and short-term credit facilities.

Previously, we have funded our operations primarily through the sale of our equity (or equity linked) and debt securities. During 2018, we have funded our operations through revenues generated and cash received from ongoing project execution and associated maintenance revenues. As of November 13, 2018, we had cash on hand of approximately \$690,000. We have approximately \$135,000 in monthly lease and other mandatory payments, not including payroll and ordinary expenses which are due monthly.

On a long-term basis, our liquidity is dependent on continuation and expansion of operations and receipt of revenues. Our current capital and revenues are sufficient to fund such expansion although we are dependent on timely payments by our customers for projects and work in process.

Demand for the products and services will be dependent on, among other things, market acceptance of our products and services, the technology market in general, and general economic conditions, which are cyclical in nature. In as much as a major portion of our activities is the receipt of revenues from the sales of our products and services, our business operations may be adversely affected by our competitors and prolonged recession periods although these are not considered to be a factor at present.

Going Concern and Liquidity

Under Accounting Standards Update, or ASU, 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) (“ASC 205-40”), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. As required by ASC 205-40, this evaluation shall initially not take into consideration the potential mitigating effects of plans that have not been fully implemented as of the date the financial statements are issued. Management has assessed the Company’s ability to continue as a going concern in accordance with the requirement of ASC 205-40.

As reflected in the condensed unaudited consolidated financial statements, the Company had a positive working capital of \$286,144 and an accumulated deficit of \$29,433,788 at September 30, 2018. During the same period in 2017, the Company had a negative working capital of \$7,577,344 and an accumulated deficit of \$27,274,428. In addition, the Company had a loss from operations of \$744,842 and cash used in operating activities of \$92,459 for the nine months ended September 30, 2018.

The Company’s condensed unaudited consolidated financial statements are prepared assuming the Company can continue as a going concern, which contemplates continuity of operations through realization of assets, and the settling of liabilities in the normal course of business. Our auditor has expressed substantial doubt regarding our ability to continue as a going concern. Our plan regarding these matters is to use the funds from our most recent raise to allow us the ability to cover our current cash flow requirements and meet our obligations as they become due. If this is insufficient due to unforeseen circumstances, there can be no assurances that financing will be available or if available, that such financing will be available under favorable terms.

Management believes that the Company has reached the point where anticipated profitable operations from current backlog in the final quarter of the year will allow continuation as a going concern for a period of at least twelve months from the date these financial statements have been issued. The ability to recognize revenue and ultimately cash receipts is contingent upon, but not limited to, acceptable performance of the delivered services. If the Company is unable to complete on some of its revenue producing opportunities in the near term, the ability to continue as a going concern may be materially impacted.

Reverse Split

Effective April 26, 2017, the Company filed an Articles of Amendment to the Articles of Incorporation of the Company (the “Amendment”) to effectuate a reverse split of the Company’s issued and outstanding common stock at a ratio of 1-for-35 (the “Reverse Split”). As a result of the Reverse Split, every thirty-five (35) shares of the Company’s issued and outstanding common stock were consolidated into one (1) share of issued and outstanding common stock. The number of authorized shares remained unchanged. No fractional shares were issued in connection with the Reverse Split. Any fractional shares of common stock resulting from the Reverse Split were rounded up to the nearest whole share.

On April 28, 2017, the Company received notice from Financial Industry Regulatory Authority that the Reverse Split was approved and took effect at the opening of trading on May 22, 2017.

The Reverse Split has no impact on shareholders’ proportionate equity interests or voting rights in the Company or the par value of the Company’s common stock, which remains unchanged.

Off Balance Sheet Arrangements

We have no-off balance sheet contractual arrangements, as that term is defined in Item 303(a)(4) of Regulation S-K.

Critical Accounting Estimates

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations.

Accounts Receivable

Accounts receivable are stated at estimated net realizable value. Accounts receivable are comprised of balances due from customers net of estimated allowances for uncollectible accounts. In determining the collections on the account, historical trends are evaluated, and specific customer issues are reviewed to arrive at appropriate allowances. The Company reviews its accounts to estimate losses resulting from the inability of its customers to make required payments. Any required allowance is based on specific analysis of past due accounts and also considers historical trends of write-offs. Past due status is based on how recently payments have been received from customers.

Share-Based Compensation

The Company accounts for employee stock-based compensation in accordance with ASC 718-10, “*Share-Based Payment*,” which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock units, and employee stock purchases based on estimated fair values.

The Company accounts for non-employee stock-based compensation in accordance with ASC 505-50-25, “*Equity Based Payments to Non-Employees*,” which requires the measurement and recognition of compensation expense for all share-based payment awards made to non-employees based on estimated fair values.

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 disclosures 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 results may differ from these estimates. The most significant estimates in the accompanying unaudited consolidated financial statements include the allowance on accounts receivable, valuation of deferred tax assets, valuation of assets acquired and liabilities assumed in business combinations, valuation of intangible and other long-lived assets, estimates of net contract revenues and the total estimated costs to determine progress towards contract completion, valuation of derivatives, valuation of warrants issued with debt, valuation of beneficial conversion features in convertible debt, valuation of stock-based awards and valuation of loss contingencies. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

With the participation of our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Report. Based upon such evaluation, our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the third quarter ended September 30, 2018 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

On July 12, 2018 the Company filed an action against one of the Company's vendors (the "Vendor"). The Vendor supplied a component that was subsequently determined by the Company's engineering staff to not meet the stated criteria for implementation and did not meet the Vendor's own stated technical specifications. Attempts to resolve the situation with the Vendor directly were not successful. On October 24, 2018 the Company was notified by counsel handling the claim by the Company against vendor that the Vendor's motion for dismissal on certain part of the Company's claim was denied by the Court. Although the claim by the Company is valued currently at less than \$50,000, the denial by the Court bolsters the Company's claim against the vendor. The Company is continuing to pursue the claim unless an acceptable settlement can be reached in this matter. We do not believe this matter will have a material adverse effect on our financial condition or results of operations and we are not involved in any other matters that could have such an effect.

Other than the matter described above, to the best of management knowledge, there is no other action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report, as amended, on Form 10-K, filed with the U.S Securities and Exchange Commission on April 2, 2018.

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

During the three months ended September 30, 2018, the Company issued 300,000 shares of common stock in the amount of \$195,000 upon the exercise of certain warrants.

The above securities were issued in reliance on the exemption under Section 4(a)(2) of the Securities Act. These securities qualified for exemption under Section 4(a)(2) since the issuance by us did not involve a public offering. The offerings were not "public offerings" as defined in 4(a)(2) due to the insubstantial number of persons involved in the transactions, manner of the issuance and number of securities issued. We did not undertake an offering in which we sold a high number of securities to a high number of investors. In addition, the investors had the necessary investment intent as required by Section 4(a)(2) since they agreed to and received securities bearing a legend stating that such securities are restricted pursuant to Rule 144 of the Act. This restriction ensures that these securities would not be immediately redistributed into the market and therefore not be part of a "public offering". Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(a)(2) of the Securities Act for these transactions.

Item 3. Defaults Upon Senior Securities.

There has been no default in the payment of principal, interest, sinking or purchase fund installment, or any other material default, with respect to any indebtedness of the Company.

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

There is no other information required to be disclosed under this item which was not previously disclosed.

Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
<u>31.1</u> *	Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
<u>31.2</u> *	Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
<u>32.1</u> *	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2</u> *	Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

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, there unto duly authorized.

DUOS TECHNOLOGIES GROUP, INC.

Date: November 14, 2018

By: /s/ Gianni B. Arcaini
Gianni B. Arcaini
Chairman and Chief Executive Officer

Date: November 14, 2018

By: /s/ Adrian G. Goldfarb
Adrian G. Goldfarb
Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Gianni B. Arcaini, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Duos Technologies Group, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly for the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2018

By: /s/ Gianni B. Arcaini
Gianni B. Arcaini
Chief Executive Officer

**CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Adrian G. Goldfarb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Duos Technologies Group, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly for the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2018

By: /s/ Adrian G. Goldfarb
Adrian G. Goldfarb
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of Duos Technologies Group, Inc. (the "Company"), on Form 10-Q for the period ended September 30, 2018, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Gianni B. Arcaini, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) Such Quarterly Report on Form 10-Q for the period ended September 30, 2018, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in such Quarterly Report on Form 10-Q for the period ended September 30, 2018, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2018

By: /s/ Gianni B. Arcaini

Gianni B. Arcaini
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of Duos Technologies Group, Inc. (the "Company"), on Form 10-Q for the period ended September 30, 2018, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Adrian G. Goldfarb, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) Such Quarterly Report on Form 10-Q for the period ended September 30, 2018, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in such Quarterly Report on Form 10-Q for the period ended September 30, 2018, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2018

By: /s/ Adrian G. Goldfarb
Adrian G. Goldfarb
Chief Financial Officer