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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 14, 2023

Duos Technologies Group, Inc.

(Exact name of registrant as specified in its charter)

Florida	**001-39227**	**65-0493217**
(State or Other Jurisdiction of Incorporation)	*(Commission File Number)*	*(I.R.S. Employer Identification No.)*

7660 Centurion Parkway, Suite 100, Jacksonville, Florida 32256
(Address of Principal Executive Offices) (Zip Code)

(904) 296-2807
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:
□ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
□ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
□ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
□ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (par value $0.001 per share)	DUOT	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company □

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

Item 2.02. Results of Operations and Financial Condition.

On November 14, 2023, Duos Technologies Group, Inc. (the "Company") issued a press release announcing the financial and operating results of the Company for the quarter and nine months ended September 30, 2023. The text of the press release is furnished as Exhibit 99.1 and incorporated herein by reference.

Additionally, on November 14, 2023, the Company held an earnings phone call open to the public (the "Earnings Call"). Mr. Chuck Ferry, the Company's Chief Executive Officer, along with Mr. Andrew W. Murphy, the Company's Chief Financial Officer, discussed the financial and operating results of the Company for the quarter and nine months ended September 30, 2023. The transcript of the Earnings Call is furnished as Exhibit 99.2 and incorporated herein by reference.

Item 7.01. Regulation FD Disclosure.

The information set forth in Item 2.02 of this Current Report on Form 8-K is incorporated by reference into this Item 7.01.

The information in Item 2.02 and Item 7.01 of this Current Report on Form 8-K, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

The press release and transcript of the Earnings Call may also be found on our website at https://www.duostechnologies.com/.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description of Exhibit
99.1	Press Release, dated November 14, 2023
99.2	Transcript of Earnings Call with Mr. Chuck Ferry and Mr. Andrew W. Murphy, dated November 14, 2023.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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, hereunto duly authorized.

DUOS TECHNOLOGIES GROUP, INC.

Dated: November 15, 2023	By:	/s/ *Andrew W. Murphy*
		Andrew W. Murphy
		Chief Financial Officer

Exhibit 99.1

Duos Technologies Group Reports Third Quarter 2023 Results

JACKSONVILLE, FL / Globe Newswire / November 14, 2023 - **Duos Technologies Group, Inc. ("Duos" or the "Company") (Nasdaq: DUOT)**, a provider of machine vision and artificial intelligence that analyzes fast moving vehicles, reported financial results for the third quarter ("Q3 2023") ended September 30, 2023.

Third Quarter 2023 and Recent Operational Highlights

- Implemented first subscription services agreement with a passenger transit operator. In connection with the agreement, Duos will offer access to its RIP and artificial intelligence detection models for key inspection points. The agreement, renewable annually, is initially valued at more than $300,000 and encompasses customer training, setup and ongoing railcar data services across three existing, active portals.
- Performed 2.3 million comprehensive railcar scans in the third quarter across 13 portals. This metric encompasses all railcars scanned at locations across the U.S., Canada, and Mexico.
- Upgraded the Company's centraco® and truevue360™ systems to enable near "real-time" reporting and facilitate immediate alerts to on-board personnel of any issue that is deemed critical.
- Appointed power and logistics industry veteran Christopher King as Chief Commercial Officer. King joins Duos with over 20 years of operational and commercial leadership experience within the energy and supply chain sectors. In this role, King will be focused on commercial and technical delivery in support of current and prospective customers as well as building an intensified growth strategy and strengthening the Company's technical strategic partners as it expands its offerings and transitions to a recurring subscription model.
- As of the end of the third quarter, the Company had $6.4 million of revenue in backlog and expects $1.0 million to $2.0 million to be recognized during the remainder of 2023.
- Strengthened industry collaborations with Dell Technologies and NVIDIA to support AI development and achieve significant increases in performance at near "real-time" reporting.

Third Quarter 2023 Financial Results
It should be noted that the following Financial Results represent the consolidation of the Company with its subsidiaries Duos Technologies, Inc. and TrueVue360, Inc.

Total revenue for Q3 2023 decreased 62% to $1.53 million compared to $4.02 million in the third quarter of 2022 ("Q3 2022"). Total revenue for Q3 2023 represents an aggregate of approximately $706,000 of technology systems revenue and approximately $825,000 in recurring services and consulting revenue. The decrease in total revenue was primarily attributed to a combination of factors. Those factors include delays during Q3 2023, which were outside of the Company's control, related to the ongoing production and delivery of two high-speed RIPs as well as year-over-year timing differences with two freight RIPs under construction during Q3 2022. These timing differences contributed to the year-over-year variance along with one-time services for major site improvements occurring in Q3 2022 also contributing to the change in services and consulting revenues in Q3 2023. The Company sees opportunities to continue to expand its programs with existing customers during the current year and beyond. In spite of the timing delays putting pressure on the quarterly results, management remains confident in the long-term potential of the RIP product.

Cost of revenues for Q3 2023 decreased 55% to $1.30 million compared to $2.92 million for Q3 2022. The decrease in cost of revenues was mainly attributable to the Company remaining in the production and manufacturing phase of the two high-speed RIPs just noted in Q3 2023 while being in the installation phase for the two freight RIPs in Q3 2022.

Gross margin for Q3 2023 decreased 79% to $227,000 compared to $1.10 million for Q3 2022. The decrease in gross margin was driven by the two previously noted project discrepancies, in Q3 2023 and Q3 2022, respectively.

Operating expenses for Q3 2023 increased 8% to $3.20 million compared to $2.97 million for Q3 2022. Sales and marketing costs saw a marginal increase primarily as a result of increased staffing within the team, while research and development expenses increased by 37% for prospective technologies testing. Overall, the Company continues to focus on stabilizing operating expenses while meeting the increased needs of its customers.

Net operating loss for Q3 2023 totaled $2.97 million compared to net operating loss of $1.87 million for Q3 2022. The increase in loss from operations was primarily the result of lower revenues recorded in the current quarter as a consequence of delays in going to field.

Net loss for Q3 2023 totaled $2.95 million compared to net loss of $1.93 million for Q3 2022. The increase in net loss was mostly attributable to the lower revenues associated with the timing of project delays noted previously.

Cash and cash equivalents at September 30, 2023 totaled $3.27 million compared to $1.12 million at December 31, 2022. As of quarter end, the Company had an additional $259,000 in receivables. Duos also held $1.53 million in inventory as of September 30, 2023, consisting primarily of long-lead items for future RIP installations.

Nine Month 2023 Financial Results

Total revenue decreased 35% to $5.95 million from $9.08 million in the same period last year. Total revenue for the first nine months of 2023 represents an aggregate of approximately $3.40 million of technology systems revenue and approximately $2.54 million in recurring services and consulting revenue. The decrease in total revenue was primarily due to the previously noted timing differences. The Company remains optimistic about its long-term outlook and sees opportunities to continue to expand its programs with existing customers during the current year and beyond through its growing artificial intelligence catalogue and improved services and maintenance. Despite this positive outlook, a longer commercial cycle paired with still-protracted supply chain timelines may result in revenue recognition pushing further into 2024. The Company remains focused on revenue and margin performance in the current environment.

Cost of revenues decreased 24% to $4.94 million from $6.47 million in the same period last year. The decrease in cost of revenues was mainly attributable to project timing discrepancies in the respective periods previously noted.

Gross margin decreased 61% to $1.01 million from $2.60 million in the same period last year. The decrease in gross margin was driven by project timing discrepancies in the respective periods previously noted.

Operating expenses increased 9% to $9.27 million from $8.51 million in the same period last year. The Company managed to maintain its costs for sales and marketing and research and development at a consistent level, while observing a slight rise in general and administration costs. This increase can be primarily attributed to a combination of the timing of personnel incentives awarded in 2023 compared to the same period in 2022 and increased amortization charges stemming from increased investment in artificial intelligence algorithms.

Net operating loss totaled $8.27 million compared to net operating loss of $5.91 million in the same period last year. The increase in loss from operations was primarily the result of lower revenues recorded in the first nine months of 2023 as a consequence of the delays noted previously.

Net loss totaled $8.08 million compared to a net loss of $5.91 million in the same period last year. The increase in net loss was mostly attributable to the lower revenues associated with the timing discrepancies noted previously.

Financial Outlook

At the end of the third quarter, the Company's contracts in backlog represented approximately $6.4 million in revenue, of which approximately $1.0 to $2.0 million is expected to be recognized during the remainder of 2023. The balance of contract backlog is comprised of multi-year service and software agreements as well as project revenues spanning into fiscal 2024. The Company also expects a near-term intake of $5.0 million to $7.0 million in multi-year service and artificial intelligence renewals and contract modifications, which are anticipated to close by the end of this year or early 2024.

Based on the factors previously noted, including project delays out of the Company's control, additional delays in customers' extended budgeting cycles and other macroeconomic challenges, Duos is withdrawing its previously provided guidance for the full year 2023. The Company will reevaluate providing financial projections on an ongoing basis and may provide an updated outlook at a later date.

Management Commentary

"Our results for the third quarter were impacted by several external factors, underscoring the challenges of operating a capex-focused business and further reinforcing our ongoing efforts to focus on a primarily subscription-based model in the future," said Duos Chief Executive Officer Chuck Ferry. "These challenges included a postponement of installation for a major transit system in the Northeast U.S., additional planned projects being pushed out for budgetary reasons and temporary delays in the initial rollout of our subscription business, the last of which has now been addressed, enabling us to monetize our first subscription agreement. In response, we have proactively initiated cost reductions in several non-essential areas to lessen the cash burn during this transition phase while revenues are lower than originally anticipated.

“Commercially, we have a high level of interest from all Class 1 railroads as well as several short lines and passenger railroads. We currently have active proposals in evaluation with a handful of different rail carriers for several dozen portals both within our core market in North America and abroad. Regarding subscriptions, we expect to begin executing a subscription with a large railcar group in the near future, and we are in discussions with another dozen prospective subscribers. Our current backlog is $6.4 million, and we have another $5 million to $7 million in near-term renewals and contract modifications, which we anticipate closing in late Q4 2023 and into early Q1 2024.

“Our goal is that the Duos Railcar Inspection Portal becomes the industry standard for machine vision wayside detection, and I believe that we are a Company that has the leadership position in the rail sector under that premise. Our transition over the next 12 to 18 months into a recurring revenue business model puts us in a very strong position to give an expected high return on investment. Despite our current short-term revenue challenges, the Company remains in a strong financial position with sufficient cash for operations, meaningful near-term business opportunities, and, most importantly, a growing acceptance of Duos’ technology that will set the stage for the growth that we are anticipating to take Duos to its next evolution.”

Conference Call

The Company’s management will host a conference call today, November 14, 2023, at 4:30 p.m. Eastern time (1:30 p.m. Pacific time) to discuss these results, followed by a question-and-answer period.

Date: Tuesday, November 14, 2023
Time: 4:30 p.m. Eastern time (1:30 p.m. Pacific time)
U.S. dial-in: 866-682-6100
International dial-in: 862-298-0702
Confirmation: 13742203

Please call the conference telephone number 5-10 minutes prior to the start time of the conference call. An operator will register your name and organization.

If you have any difficulty connecting with the conference call, please contact Gateway Investor Relations at 949-574-3860.

The conference call will be broadcast live via telephone and available for online replay via the investor section of the Company's website here.

About Duos Technologies Group, Inc.

Duos Technologies Group, Inc. (Nasdaq: DUOT), based in Jacksonville, Florida, through its wholly owned subsidiary, Duos Technologies, Inc., designs, develops, deploys and operates intelligent vision based technology solutions supporting rail, logistics, intermodal and government customers that streamline operations, improve safety and reduce costs. The Company provides cutting edge solutions that automate the mechanical and security inspection of fast-moving trains, trucks and automobiles through a broad range of proprietary hardware, software, information technology and artificial intelligence. For more information, visit www.duostech.com.

Forward- Looking Statements

This news release includes forward-looking statements regarding the Company's financial results and estimates and business prospects that involve substantial risks and uncertainties that could cause actual results to differ materially. Forward-looking statements relate to future events and typically address the Company's expected future business and financial performance. The forward-looking statements in this news release relate to, among other things, information regarding anticipated timing for the installation, development and delivery dates of our systems; anticipated entry into additional contracts; anticipated effects of macro-economic factors (including effects relating to supply chain disruptions and inflation); timing with respect to revenue recognition; trends in the rate at which our costs increase relative to increases in our revenue; anticipated reductions in costs due to changes in the Company's organizational structure; potential increases in revenue, including increases in recurring revenue; potential changes in gross margin (including the timing thereof); statements regarding our backlog and potential revenues deriving therefrom; and statements about future profitability and potential growth of the Company. Words such as "believe," "expect," "anticipate," "should," "plan," "aim," "will," "may," "should," "could," "intend," "estimate," "project," "forecast," "target," "potential" and other words and terms of similar meaning, typically identify such forward-looking statements. Forward-looking statements involve risks and uncertainties and there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the Company's ability to continue as a going concern, the Company's ability to generate sufficient cash to continue and expand operations, the competitive environment generally and in the Company's specific market areas, changes in technology, the availability of and the terms of financing, changes in costs and availability of goods and services, economic conditions in general and in the Company's specific market areas, changes in federal, state and/or local government laws and regulations potentially affecting the use of the Company's technology, changes in operating strategy or development plans and the ability to attract and retain qualified personnel. The Company cautions that the foregoing list of risks, uncertainties and factors is not exclusive. Additional information concerning these and other risk factors is contained in the Company's most recently filed Annual Report on Form 10-K, subsequent Quarterly Reports on Form 10-Q, recent Current Reports on Form 8-K, and other filings filed by the Company with the U.S. Securities and Exchange Commission (the "SEC"), which are available at the SEC's website, http://www.sec.gov. The Company believes its plans, intentions and expectations reflected in or suggested by these forward-looking statements are based on reasonable assumptions. No assurance, however, can be given that the Company will achieve or realize these plans, intentions or expectations. Indeed, it is likely that some of the Company's assumptions may prove to be incorrect. The Company's actual results and financial position may vary from those projected or implied in the forward-looking statements and the variances may be material. Each forward-looking statement speaks only as of the date of the particular statement. We do not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any forward-looking statement is based, except as required by law. All subsequent written and oral forward-looking statements concerning the Company or other matters attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above.

Contacts

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

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
REVENUES:				
Technology systems	$ 705,849	$ 2,709,899	$ 3,404,107	$ 6,273,213
Services and consulting	825,074	1,312,339	2,541,163	2,805,483
Total Revenues	1,530,923	4,022,238	5,945,270	9,078,696
COST OF REVENUES:				
Technology systems	883,836	2,176,761	3,723,151	5,016,551
Services and consulting	420,499	745,925	1,217,022	1,457,913
Total Cost of Revenues	1,304,335	2,922,686	4,940,173	6,474,464
GROSS MARGIN	226,588	1,099,552	1,005,097	2,604,232
OPERATING EXPENSES:				
Sales and marketing	353,386	297,057	962,040	956,937
Research and development	450,006	329,424	1,392,692	1,296,480
General and administration	2,394,173	2,342,089	6,916,390	6,255,926
Total Operating Expenses	3,197,565	2,968,570	9,271,122	8,509,343
LOSS FROM OPERATIONS	(2,970,977)	(1,869,018)	(8,266,025)	(5,905,111)
OTHER INCOME (EXPENSES):				
Interest expense	(1,406)	(2,057)	(5,816)	(7,943)
Other income, net	24,647	(53,993)	191,022	698
Total Other Income (Expenses)	23,241	(56,050)	185,206	(7,245)
NET LOSS	$ (2,947,736)	$ (1,925,068)	$ (8,080,819)	$ (5,912,356)
Basic and Diluted Net Loss Per Share	$ (0.41)	$ (0.30)	$ (1.12)	$ (1.01)
Weighted Average Shares-Basic and Diluted	7,240,632	6,450,180	7,189,256	5,859,375

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,266,916	$ 1,121,092
Accounts receivable, net	258,874	3,418,263
Contract assets	1,346,731	425,722
Inventory	1,525,913	1,428,360
Prepaid expenses and other current assets	355,978	441,320
Total Current Assets	6,754,412	6,834,757
Property and equipment, net	555,485	629,490
Operating lease right of use asset	4,454,714	4,689,931
Security deposit	550,000	600,000
OTHER ASSETS:		
Note receivable, net	151,875	—
Patents and trademarks, net	121,051	69,733
Software development costs, net	793,618	265,208
Total Other Assets	1,066,544	334,941
TOTAL ASSETS	$ 13,381,155	$ 13,089,119
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 619,765	$ 2,290,390
Notes payable - financing agreements	137,816	74,575
Accrued expenses	275,277	453,023
Equipment financing payable-current portion	—	22,851
Operating lease obligations-current portion	774,306	696,869
Contract liabilities	1,588,928	957,997
Total Current Liabilities	3,396,092	4,495,705
Operating lease obligations, less current portion	4,310,853	4,542,943
Total Liabilities	7,706,945	9,038,648
Commitments and Contingencies (Note 4)		
STOCKHOLDERS' EQUITY:		
Preferred stock: $0.001 par value, 10,000,000 authorized, 9,441,000 shares available to be designated	—	—
Series A redeemable convertible preferred stock, $10 stated value per share, 500,000 shares designated; 0 and 0 issued and outstanding at September 30, 2023 and December 31, 2022, respectively, convertible into common stock at $6.30 per share	—	—
Series B convertible preferred stock, $1,000 stated value per share, 15,000 shares designated; 0 and 0 issued and outstanding at September 30, 2023 and December 31, 2022, respectively, convertible into common stock at $7 per share	—	—
Series C convertible preferred stock, $1,000 stated value per share, 5,000 shares designated; 0 and 0 issued and outstanding at September 30, 2023 and December 31, 2022, respectively, convertible into common stock at $5.50 per share	—	—
Series D convertible preferred stock, $1,000 stated value per share, 4,000 shares designated; 1,299 and 1,299 issued and outstanding at September 30, 2023 and December 31, 2022, respectively, convertible into common stock at $3 per share	1	1
Series E convertible preferred stock, $1,000 stated value per share, 30,000 shares designated; 4,000 and 0 issued and outstanding at September 30, 2023 and December 31, 2022, respectively, convertible into common stock at $3 per share	4	—
Series F convertible preferred stock, $1,000 stated value per share, 5,000 shares designated; 5,000 and 0 issued and outstanding at September 30, 2023 and December 31, 2022, respectively, convertible into common stock at $6.20 per share	5	—
Common stock: $0.001 par value; 500,000,000 shares authorized, 7,248,455 and 7,156,856 shares issued, 7,247,131 and 7,155,552 shares outstanding at September 30, 2023 and December 31, 2022, respectively	7,248	7,156
Additional paid-in-capital	66,267,057	56,562,600
Accumulated deficit	(60,442,653)	(52,361,834)
Sub-total	5,831,662	4,207,923
Less: Treasury stock (1,324 shares of common stock at September 30, 2023 and December 31, 2022)	(157,452)	(157,452)
Total Stockholders' Equity	5,674,210	4,050,471

Total Liabilities and Stockholders' Equity	$ 13,381,155	$ 13,089,119

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

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Cash from operating activities:		
Net loss	$ (8,080,819)	$ (5,912,356)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	393,057	225,825
Stock based compensation	499,590	592,177
Stock issued for services	105,565	120,000
Amortization of operating lease right of use asset	235,217	198,790
Changes in assets and liabilities:		
Accounts receivable	3,159,389	(454,431)
Note receivable	(151,875)	—
Contract assets	(921,009)	(820,938)
Inventory	(97,552)	(395,787)
Security deposit	50,000	—
Prepaid expenses and other current assets	543,793	15,539
Accounts payable	(1,670,625)	605,129
Accrued expenses	(178,081)	(136,180)
Operating lease obligation	(154,653)	60,668
Contract liabilities	630,931	2,051,109
Net cash used in operating activities	(5,637,072)	(3,850,455)
Cash flows from investing activities:		
Purchase of patents/trademarks	(58,208)	(17,490)
Purchase of software development	(640,609)	(87,700)
Purchase of fixed assets	(199,618)	(311,327)
Net cash used in investing activities	(898,435)	(416,517)
Cash flows from financing activities:		
Repayments of insurance and equipment financing	(395,221)	(303,492)
Repayment of finance lease	(22,851)	(69,325)
Proceeds from common stock issued	—	8,550,002
Stock issuance cost	(17,645)	(837,467)
Proceeds from shares issued under Employee Stock Purchase Plan	117,048	—
Proceeds from preferred stock issued	9,000,000	999,000
Net cash provided by financing activities	8,681,331	8,338,718
Net increase in cash	2,145,824	4,071,746
Cash, beginning of period	1,121,092	893,720
Cash, end of period	$ 3,266,916	$ 4,965,466
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 5,816	$ 8,045
Taxes paid	$ —	$ 1,264
Supplemental Non-Cash Investing and Financing Activities:		
Notes issued for financing of insurance premiums	$ 458,452	$ 353,244

Duos Technologies Group, Inc.
Third Quarter 2023 Earnings Conference Call
November 14, 2023

Presenters
Chuck Ferry, Chief Executive Officer
Andrew Murphy, Chief Financial Officer

Q&A Participants
Owen Rickert - Northland Securities
Rafiq Khalid - Ascendiant Capital

Operator
Good afternoon. Welcome to Duos Technologies Third Quarter 2023 Earnings Conference Call.

Joining us on today's call are Duos' CEO, Chuck Ferry, and CFO, Andrew Murphy. Following their remarks, we will open the call for your questions. Then, before we conclude today's call, I'll provide the necessary cautions regarding the forward-looking statements made by management during this call.

Now, I would like to turn the call over to Duos' CEO, Chuck Ferry. Sir, please proceed.

Chuck Ferry
Welcome, everyone, and thank you for joining us. Earlier today, we issued a press release announcing our financial results for the third quarter, as well as other operational highlights. A copy of the press release is available in the Investor Relations section of our website.

I encourage all listeners to view that release, as well as our 10-Q filing with the SEC to better understand some of the details we'll be discussing during our call.

Today, I'm going to discuss my assessment that the company is in the best position it has ever been to achieve our strategy and long-term value, despite some short-term financial headwinds, which Andrew will walk us through in a moment.

I want to remind everyone that we believe Duos is currently the North American rail industry leader in machine vision and artificial intelligence wayside detection technology.

Three of the six Class 1 railroads, plus Ferromex and Amtrak, use our railcar inspection solution with strong results. During the third quarter, we scanned 2.3 million railcars. And subsequent to the end of the quarter, I'm happy to report our detections are now deployed with all of our railroad customers. While full adoption of machine vision wayside technology, paired with AI, is going more slowly than we would like, there is strong consensus among industry leaders that this technology will be fully adopted in the coming years, as the rail industry makes continued safety improvements. We believe that Duos is in a strong position with the support of our current rail customers to be in the leading edge of this adoption.

What is critical for us in the coming 12 to 18 months is the transition from a volatile CapEx only business to a machine vision artificial intelligence subscription business with steady recurring revenue. We'll discuss our plan and the critical milestones to lead this, after we review the financial results. Andrew.

Andrew Murphy
Thank you, Chuck. As we have discussed in previous calls, Duos has historically operated with periods of intermittent growth, interspersed with temporary lulls, as large new contracts begin the execution cycle and progress through various stages of development.

More recently, we've discussed the strategic shift of the business toward a recurring revenue model given the volatility and previously noted forecast challenges of our legacy CapEx focused structure. Our results for Q3 exemplify this volatility and revenue underscoring the challenges in a CapEx model and support our ongoing efforts to focus on primarily subscription based model in the future.

To be clear, the business is in a strong position, both fundamentally and financially. However, contract timing represents Duos' biggest threat to predictability. This makes quarter-over-quarter comparisons not necessarily meaningful to the current position of the company.

As a result, the focus of today's call is an assessment of where we currently stand in our long-term vision and strategy to transform our business into a sustainable, predictable leading technology company. For that reason, I will be brief in my commentary to allow for analysis on the strategic vision.

Now, let's get into our results for the third quarter. Total revenue for the third quarter of 2023 was $1.53 million and $5.95 million for the first nine months of 2023. This was a decrease in total revenue on a year-over-year basis for both periods, driven by a combination of factors including customer driven delays on key projects, originally slated to be completed late in the third quarter, 2023, and timing of new CapEx projects.

Gross margin was $227,000 for the third quarter of 2023 and $1.01 million for the first nine months of 2023. This represents a decrease in revenue on a year-over-year basis, largely driven by the same period over period drivers noted in revenue.

Operating expenses for the third quarter were $3.2 million and $9.27 million for the first nine months of 2023.

Of note, expenses were essentially flat from Q2 2023, to Q3 2023. And the company has implemented several expense reductions which will manifest themselves in the fourth quarter of 2023, and beyond.

Net operating loss for the third quarter totaled $2.97 million and $8.27 million for the nine months ended September 30 2023. The loss from operations was primarily the result of continued lower revenues recorded in the third quarter and year-to-date, as a consequence of the project delays previously noted. This had a similar impact on overall net loss.

For the three months ended September 30 2023 and 2022, net loss per common share was $0.41 and $0.30, respectively. For the nine months ended September 30 2023 and 2022, net loss per common share was $1.12, and $1.01, respectively.

Let's now discuss the balance sheet. We ended the quarter with approximately $3.27 million in cash and cash equivalents. We have an additional $0.25 million in receivables, as well as $1.35 million in contract assets, together constituting over $1.6 million in future cash flow, as well as $1.5 million of inventory consisting primarily of long lead items for two pending RIP installations.

Subsequent to the end of the quarter, in early November, the company took in net proceeds of $2.5 million for the sale of Series E Convertible Preferred Stock with an existing investor.

As of this call, the company has approximately $4.1 million in cash and cash equivalents. Duos continues to have the support of our long-term shareholders who recognize the strategic path the company is pursuing, as evidenced by its most recent capital infusion, and we appreciate their continued support as we implement our subscription platform.

At the end of the third quarter, our contracts and backlog represented approximately $6.4 million in revenue, and we have approximately $5 million to $7 million in near term renewals and contract modifications, providing additional visibility in future revenue performance and cash receipts.

We remain encouraged by the long-term nature of our contracts and believe our maintenance and artificial intelligence services ensure that the railcar inspection portals are critical to three of the six Class 1 railroads and our other major transit and freight operators ongoing network operations.

The net effect of the aforementioned timing challenges during 2023 is that we will not be able to book sufficient revenue to meet our guidance range and, thus, are withdrawing full year 2023 revenue guidance. While the near term results have been lower than expected, I am confident in the long-term vision and progression towards those objectives.

As noted, we are sufficiently capitalized to execute our near term plans. The business has no debt, and we hold inventory on the balance sheet to execute anticipated projects. This flexibility gives us bandwidth to take advantage of contracts that are pending and expected to be signed in the next few months, as well as convert some of the key subscriptions and CapEx projects in our pipeline.

This financial position, coupled with our expected success of our strategic initiatives, will position the company for growth of its recurring revenues and positive overall outlook. In summary, we are financially positioned to execute our current plans, and we have visibility to near term cash from the combination of backlog and forthcoming change orders.

That concludes my financial commentary. And I'll now pass it back over to Chuck.

Chuck Ferry
Thank you, Andrew. Let's briefly discuss where we are as a company right now. Our current customers and many potential new customers have told us that, technically, our railcar inspection portal is the best-in-class in terms of performance, reliability and standardization of the hardware, software, IT infrastructure, and artificial intelligence.

Major advancements have been made in AI development. And I'm pleased to say that all of Duos' customers are using our AI detections catalog of 40 plus use cases with excellent results. In some applications, our customers are using the portals and detections catalog to obtain regulatory waivers.

We have continued to invest in research and development to stay at the forefront of the industry. This coming year, we will deploy a new thermal undercarriage examiner, a new 360 degree wheel and brake inspection system and a new hot bearing detector system, all of which can be integrated into the existing railcar inspection portal.

Another key technical breakthrough deployed to the track edge is a system update whereby the portals can acquire, compute and present inspection results in as little as 60 seconds after the railcar passes through the portal, which allows for instant notification to train crews, dispatchers and railroad mechanical teams.

This achievement has been publicly recognized by two of our technical partners, Dell Computers and NVIDIA. Another compelling feature is that our machine vision AI safety data is exchangeable and can be uniformly distributed amongst the stakeholders of the larger rail network in near real time.

Commercially, we have a lot of high level interest--we have a high level of interest for all the Class 1s, several short lines and passenger railroads. Our backlog at the end of the quarter of approximately $6.4 million, with another $5 million to $7 million of near term contract modifications, as well as multiyear service extensions expected on next two quarters with existing customers further emphasizes the long-term value in the RIP program.

We currently have active proposals and evaluation with a handful of different rail carriers, for dozens of new portals, which also includes larger international opportunities. As we've always stated, the closing cycle for new CapEx deals is slow and episodic. That is exactly why we've decided to shift our focus to the subscription model, which does a couple of things. First, it doesn't change our original total addressable market of 150 portals to effectively cover the North American network.

Second, it now adds hundreds of car owners, lessors and shippers, many of whom have shown strong interest in using our safety data to more effectively manage the maintenance of their fleet, to improve safety and overall car utilization rates.

We currently have two subscription customers, one is a passenger rail carrier, and the other is one of the largest car operating companies in North America. We are also in discussions with a dozen other prospective subscribers. I expect that with support from our partners, our subscriptions will grow significantly in the near future to promote a safer rail network.

So now let me outline our plan and the key milestones to watch that will, ultimately, set our course for a profitable business.

The first key milestone is partnering with existing customers where we already have portals, which will enable us to offer subscriptions to car owners and shippers. We were also in discussions to build a first subscription portal where we will own and operate it at one of the nation's busiest interchange points for hard hazardous cargo.

As you can imagine, post East Palestine, there has been renewed interest across the industry to share safety data from wayside detection systems. In this concept, a rail carrier benefits by having cars arrive on its network in better mechanical condition, which is both safer and an enabler to improve overall car utilization rate.

The carriers can also benefit by seeing the railcars before they accept them and interchange with them.

The second is continuing our commercial efforts with the other Class 1s not using our technology. I recently read a government report on lessons learned from the implementation of positive train control.

The primary challenge was to achieve interoperability and the ability to easily exchange data amongst carriers and other stakeholders. As with the adoption of any safety technology, the long game is to have this interoperability and do it with minimal investment across all stakeholders.

The third is to continue to work with our railroad partners to gain support from key industry stakeholders, such as the American Association of Railroads, the Federal Rail Administration, labor unions, and others.

The fourth is to work with our partners on a southern border strategy. One of our Class 1 partners is already using our technology which is highly capable of identifying illegal riders for waiver application to move to rail commerce faster and more securely across the southern border, as nearshoring becomes a more critical issue for the United States.

We are currently in discussions with our rail partners and federal rail, federal and state law enforcement agencies to expand the use of our technology to better enable these organizations to securely move commerce across the border.

The final milestone is to expand our solution internationally. We already have several proposals in active evaluation for a handful of portals and have several additional opportunities that we're working on in our commercial pipeline.

To be clear, our plan is that the Duos railcar inspection portal becomes the industry standard for machine vision and wayside detection, enabled with AI. The portals will be installed across the entire North American rail network and, eventually, around the globe, whether owned by Duos or our customers and operate them for the sharing of safety data amongst the Class 1s, short lines, passenger, regulatory, other federal state and local authorities.

Portals would form part of an overall safety management system where data from all wayside detection systems, onboard telemetry data and other real track network data can be viewed in a single system.

Highly functional analytics and AI will be applied and the information used by human operators to make decisions and take actions in near real time. If we are successful in achieving our goal, we would have 100 to 150 portals installed on a North American network, all allowing for data access via subscriptions. Under this model, the business would generate annual recurring revenues that are many factors above our current CapEx focused business model.

So, what are the risks to achieving our goals? Primary risks are project delays and timing of revenue recognition and cash collection. The current CapEx model remains episodic and difficult to forecast, but will continue to be a part of our revenue structure in the foreseeable future.

We have shown we can manage through this in the past, and we will continue to see this kind of pressure as we transition to a subscription model. Another risk is the speed with which the industry will adopt this cutting edge technology.

As I've said, there is broad consensus across all railroad stakeholders that technology such as ours is needed and will be widely implemented. The impending Railway Safety Act, whether it passes or not, has spurred the entire industry to get even more focused on safety. Our technology can also be a key technical enabler for our rail operators and law enforcement agencies at the southern border.

In closing, I want to highlight that I believe our company has a leadership position in the rail sector, with machine vision and AI wayside detection. Our transition over the next 12 to 18 months into a recurring revenue business model, selling into a growing demand for this technology puts us in a very strong position to give an unexpected high return on investment to our loyal shareholders.

I also believe that despite our current short-term revenue challenges, the company remains in good financial position with sufficient cash from operations and near term business opportunities that will accomplish the key milestones I discussed earlier and provide a good return to our shareholders.

And with that, we're ready to open the call for your questions. Operator, would you please provide the appropriate instructions?

Operator
Thank you. The floor is now open for questions. If you do have a question, please press “*”, “1” on your telephone keypad, at this time. If your question has been answered, you can remove yourself from the queue by pressing “1”. Again, ladies and gentlemen, it’s “*”, “1”. Please hold while we poll for questions.

Our first question comes from Mike Latimore from Northland Securities. Go ahead, Mike.

Owen Rickert
Hey, guys. This is Owen Rickert on for Mike. tonight. First question, is the postponement of deployments with the large transit customer a cancellation? And if not a cancellation, will deployments occur in ’24?

Chuck Ferry
Yeah, thanks for the question. To be real clear, it is not, I say again not, a cancellation, it is a delay. For that customer right there that's up along the northeast corridor, what's going on is you've got two large tunnel projects and a bridge project that are north of our portal locations. And project delays out of our control at those three sites have caused delays around the civil works, and some of the other preparatory works to insert those portals.

So, we're definitely expecting to complete those portals in the coming year. But again, I think that customer is managing themselves through some project delays. And unfortunately, we are being impacted from that.

That being said, I want to add that that customer has worked very closely with us and has actually added a number of additional contract modifications and other modifications to add additional work in the form of subscriptions, that is actually added to the overall value of that customer. So while we're--while the delays are frustrating for us, it has actually added to the overall value to the overall backlog for the company.

Owen Rickert
Got it, thanks. And then what are you guys assuming for sales cycles on subscription deals? And how many subscription customers are you expecting to land in fiscal year ‘24?

Chuck Ferry
Yeah, as we talked before, the sales cycle for a normal CapEx sale is oftentimes, it'll run 12 to 18 months, which is a long cycle. In the subscription cycle, we've already been through this; that sales cycle is shorter. I would probably place at about anywhere from three to nine months, depending on the customer.

We already have two solid subscription customers now. And we're already talking to a dozen or so others. Each of them has their own separate set of situations. So, I would expect we would probably add at least six to 12 additional subscription customers over the course of 2024, at a minimum, as we progress.

Owen Rickert
Okay, and then last one. Do many customers want to see a few more subscription examples up and running before deciding to go the subscription route?

Chuck Ferry
Look, I'll try to categorize like this; I'll just try to be very transparent. The type of data, the type of safety data, which is machine vision, and artificial intelligence driven, is pretty new to this industry. A lot of the car owners and shippers have not previously had access to this data.

Now, the Class 1 carriers have had access to this data now for a couple of years; certainly our three main customers. And I believe as we go forward, our current Class 1 customers will actually help and assist in kind of talking about the use of that data and help us actually drive bringing on those subscription customers.

I will say that the current shippers and car owners are kind of looking at as to how the Class 1 customers use that data. And in the discussions that we're having, which are very detailed and very technical, there's a lot of excitement for how they can use it, and how they can use that to make sure as an enabler to keep their core utilization rates higher at this point.

Owen Rickert
Got it. Thanks, guys.

Chuck Ferry
Thanks for the questions.

Operator
And our next question comes from Rafiq Khalid from Ascendiant Capital. Go ahead.

Rafiq Khalid
Hi, it’s Rafiq for Edward Woo. Two questions. First one, can you talk a little bit about, or expand on your international marketing efforts? And then the second one, do you see any change in demand when there's a government shutdown or upcoming elections?

Chuck Ferry
Yeah, so on the first question, particularly over the last year, we've taken a lot of inquiries, internationally. These inquiries have come in from Europe, they've come in from Australia, they've come in from the Middle East, and we've also seen inquiries come in, obviously, from Canada and Mexico, but also down in Latin America. In terms of marketing, we've approached it one of two ways. Number one, we're very fortunate that we haven't done a lot of international marketing directly, but we've still taken an increase.

So, I think that comes from having a good website and I think having an overall good reputation within the Class 1, the American, North American Class 1 network. A lot of times the calls come in, after they've queried some of our customers, so that's really helpful.

We have taken in some of our leads, if you will, internationally, from our technology partners, both Dell Computers and NVIDIA, which we're very thankful for. And then the third pathway, internationally, has been working with partners. There are some larger wayside detection and rail vendor partners. I don't want to name them publicly, right now.

But we are partnered with one or two of the larger rail vendors in the international market that have a good international footprint, where we've partnered with them on some of these international opportunities. So, we're excited to do that. And it certainly, in that partnership, allows us to be a little bit more aggressive in some of the requests for proposals that are currently under evaluation.

On the second question, the government shutdown. As you know, I spent a number of years in the Army so we used to be always very careful to watch government shutdowns. They can be very disruptive to not only employees but also their families. In our case, a government shutdown, I do not see that impacting our business, at this time.

Again, most of our business is with commercial entities that are not at least directly impacted by that. Our one true government customer right now, as it stands, last time we were threatened with the shutdown or gone through shutdowns, it did not impact us. If we had an extended shutdown, our one passenger rail customer, it could impact them.

But right now, I don't really--I'm not particularly concerned about it. Andrew, unless you see it differently, that's kind of my take on it.

Andrew Murphy
No, I think that's a very consistent approach with what we've seen so far with that customer.

Rafiq Khalid
Thank you for taking my question.

Chuck Ferry
Okay, any other questions I'd appreciate, we'll answer for you.

Operator
Again, ladies and gentlemen, it's "*", "1" to ask a question on the phone. Please hold while we poll. And at this time, this concludes our question and answer session. I would now like to turn the floor back over to Mr. Ferry for his closing remarks.

Chuck Ferry
Thanks, Operator. I appreciate your support today, and thank you, everyone, for joining us. And thank you, especially, for our shareholders that are on the call, today.

Operator
Before we conclude today's call, I would like to provide Duos' Safe Harbor statement that includes important cautions regarding forward-looking statements made during this call. The earnings call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking terminology such as believes, expects, may, will, should, anticipates, plans and their opposites or 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 a number of 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, and could cause Duos Technologies Group Inc.'s actual results to differ, materially, from those anticipated by the forward-looking statements.

These risks and uncertainties include, but are not limited to, those described in Item 1A in Duos' Annual Report on Form 10-K, which is expressly incorporated herein by reference, and other factors as may periodically be described in Duos' filings with the SEC.

Thank you for joining us today for Duos Technologies Group's third quarter 2023 conference call. You may now disconnect. And have a nice day.