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): April 1, 2024

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 April 1, 2024, Duos Technologies Group, Inc. (the "Company") issued a press release announcing the financial and operating results of the Company for the fourth quarter ("Q4 2023") and full year ended December 31, 2023. The text of the press release is furnished as Exhibit 99.1 and incorporated herein by reference.

Additionally, on April 1, 2024, the Company held an earnings phone call open to the public (the "Earnings Call"). Mr. Chuck Ferry, the Company's Chief Executive Officer, and Mr. Andrew W. Murphy, the Company's Chief Financial Officer, discussed the financial and operating results of the Company for Q4 2023 and the full year ended December 31, 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Current Report on Form 8-K includes information that may constitute forward-looking statements. These forward-looking statements are based on the Company's current beliefs, assumptions and expectations regarding future events, which in turn are based on information currently available to the Company. By their nature, forward-looking statements address matters that are subject to risks and uncertainties. Forward-looking statements include, without limitation, statements relating to projected industry growth rates, the Company's current growth rates and the Company's present and future cash flow position. A variety of factors could cause actual events and results, as well as the Company's expectations, to differ materially from those expressed in or contemplated by the forward-looking statements. Risk factors affecting the Company are discussed in detail in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by applicable law.

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 April 1, 2024.
99.2	Transcript of Earnings Call with Mr. Chuck Ferry and Mr. Andrew W. Murphy, dated April 1, 2024.
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: April 2, 2024	By:	/s/ *Andrew W. Murphy*
		Andrew W. Murphy Chief Financial Officer

Duos Technologies Group Reports Fourth Quarter and Full Year 2023 Results

Short term revenue decline during transition to subscription revenue model combined with significant operational progress and growing pipeline of opportunities

JACKSONVILLE, FL / Globe Newswire / April 01, 2024 - **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 fourth quarter (“Q4 2023”) and full year ended December 31, 2023.

Fourth Quarter 2023 and Recent Operational Highlights

- Secured contract for expansion of recurring revenues including $2.4 million, multiyear AI subscription and services agreement with Class 1 railroad for advanced AI-Based Defect Detection models.
- Closed $360,000 in annual recurring revenue with Mexican rail operator encompassing expanded support through Duos’ Preventative Maintenance Checks and Services (PMCS) Program and Field Services Support.
- Scanned more than 8.5 million railcars on over 665,000 unique railcars for the full year. This metric encompasses all railcars scanned at locations across the U.S., Canada, and Mexico, representing approximately 40% of the total freight car population in North America.
- Granted wide ranging Patent "Use of Artificial Intelligence to Detect Defects in Trains and Method to Use". This innovative AI patent reinforces Duos’ strong commitment to improving rail safety through technology.
- 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.
- At the end of the year, the Company had $6.6 million of revenue in backlog and more than $100 million in identified opportunities.
- Strengthened industry collaborations with Dell Technologies and NVIDIA to support AI development and achieve significant increases in performance at near “real-time” reporting. Duos featured in Dell promotional video released in Q1 2024.

Fourth 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™.

Total revenue for Q4 2023 decreased 74% to $1.53 million compared to $5.93 million in the fourth quarter of 2022 ("Q4 2022"). Total revenue for Q4 2023 includes approximately $1.31 million in recurring services and consulting revenue, an increase of 29% over the same period. The increase in recurring revenues was driven by a new AI subscription with a major Class 1 and subscription data services with a large passenger railway.

Cost of revenues for Q4 2023 decreased 68% to $1.22 million compared to $3.79 million for Q4 2022. The decrease in costs year-over-year stems from overall lower revenues. Services and consulting cost of revenues increased by 38%, reflective of the transition to software support and data provision for the subscription business and timing of pre-programmed maintenance calls.

Gross margin for Q4 2023 decreased 86% to $303 thousand compared to $2.14 million for Q4 2022. The decline in margin during the quarter was a direct result of lower business activity timing in the technology systems area of the business in line with the refocus of the business to data subscription, AI software and support services as previously noted. The Company expects higher gross margins overall in the coming periods as a result of this transition.

Operating expenses for Q4 2023 increased 12% to $3.48 million compared to $3.10 million for Q4 2022. There was an increase in sales and marketing related to continued increased investment in the overall capability of the commercial team. Additionally, general and administration costs increased primarily due to a focus on employee retention to support the Company's long-term operating plan.

Net operating loss for Q4 2023 totaled $3.18 million compared to net operating loss of $960,038 for Q4 2022. The increase in net operating loss was as a result of lower revenues recorded during the quarter.

Net loss for Q4 2023 totaled $3.16 million compared to a net loss of $952,427 for Q4 2022.

Cash and cash equivalents at December 31, 2023 totaled $2.44 million compared to $1.12 million at December 31, 2022. As of yearend, the Company had an additional $1.46 million in receivables, bolstering its liquidity position to approximately $3.90 million. Duos also had an additional $1.53 million of inventory as of December 31, 2023, consisting primarily of long-lead items for two ongoing RIP installations.

In March 2024, the Company entered into a securities purchase agreement with certain new and existing investors resulting in the issuance of an aggregate of 2,745 shares of Series D and Series E Convertible Preferred Stock. Duos received aggregate proceeds of $2.75 million through the transaction.

Full Year 2023 Financial Results

Total revenue for the full year 2023, decreased 50% compared to 2022. Much of the decrease was due to customer-driven delays beyond the Company's control related to the ongoing production of the two high-speed transit-focused RIPs. The resultant timing delays of the overall project delivery timeline shifts anticipated revenues into the second half of 2024. The Company also began its transition into a greater focus on AI software and support services, much of which are recurring revenues and there was a small increase in services and consulting revenues. Underlying recurring revenues climbed by approximately 23% on a year-over-year basis. This growth is fueled by the expansion of service contracts following the completion of new portals in early 2023, coupled with the deployment of AI services with several customers and data subscription services for a large passenger transit customer. The Company anticipates these revenue sources will continue growing throughout 2024 and beyond.

Cost of revenues decreased 40% overall for the year due to the overall decrease in revenues. Cost of revenues on services and consulting decreased by 4% year-over-year despite a small increase in revenues for this category, which is a positive trend. The Company continues to put into service additional artificial intelligence algorithms and maintenance and support services which are high margin and represent only marginal increases in the requisite costs to deliver these services.

Gross margin decreased 72% for the year ended December 31, 2023 as compared to the same period in 2022. As noted above, the decline in margin was a direct result of project delays that were experienced in the latter half of 2023 offset by a slight increase in services and consulting margins. The business activity in 2023 consisted primarily of continued progression into the advanced stages of procurement and manufacturing for the transit-focused RIPs.

Operating expenses were higher by 10% in 2023 as compared to the full-year 2022. There was a 12% increase in sales and marketing related to increased investment into the capability of the commercial team, including the addition of professionals with extensive experience and leadership in the rail industry. Additionally, a small increase in general and administration costs was influenced by several factors, including non-cash amortization charges associated with roughly 400,000 share options that were issued during 2023. In late 2023, the Company took steps to rationalize some non-essential staff positions given the lower performance in 2023 with an anticipated impact of around $1 million saving in operating costs in 2024.

Net operating loss The losses from operations for the years ended, December 31, 2023 and 2022 were $11,446,566 and $6,865,149, respectively. The increase in losses from operations during the year was the result of temporary decline in system revenues stemming from a timing shift in business activity as well as project delays experienced in the latter half of 2023 that were beyond the Company's control.

Net loss The net loss for the years ended December 31, 2023 and 2022 was $11,241,718 and $6,864,783, respectively. The increase in overall net loss was offset slightly with an increase in the Company's recurring services and consulting. Net loss per common share was $1.56 and $1.11 for the years ended December 31, 2023 and 2022, respectively.

Financial Outlook

At the end of 2023, the Company's contracts in backlog represented approximately $6.6 million in revenue, of which approximately $4.4 million is expected to be recognized in calendar 2024 not including an estimated $6.0 - $7.0 million in expected near-term awards and renewals. The balance of contract backlog is comprised of multi-year service and software agreements as well as project revenues spanning through fiscal 2024.

In the fourth quarter of 2023 the Company withdrew its previously issued guidance due to unforeseen delays from three major projects which delayed recognition of a substantial portion of expected revenues into 2024. Duos expects an improvement in operating results to be reflected over the course of the full year 2024 from the realization of these projects and other anticipated new projects. As a result of typical business seasonality as well as timing and other factors, the Company expects revenues in the first quarter of 2024 to be similar to the fourth quarter of 2023 before sequentially increasing throughout the remainder of the year.

Management Commentary
“2023 was a challenging year for our Company with strong progress in many areas of operations offset by project delays from three major clients which were out of our control,” said Duos Chief Executive Officer Chuck Ferry. “However, during the year we made substantial progress in the delivery of our AI algorithms and Centraco software update, the backbone of our Railcar Inspection Portal. We have significantly increased the breadth of our AI applications to also include passenger rail use cases, and continued to grow our recurring revenue base through strong renewals and add-on work as evidenced by the renewed and added contracts in early 2024.

“We continue to engage with the Class 1s, Passenger Railroads, labor unions, and Congress in a concerted effort to see this cutting-edge technology adopted on a larger scale while also using our expertise to address the broader AI Value Chain which I will discuss further in our upcoming earnings call.”

Conference Call
The Company’s management will host a conference call today, April 1, 2024, 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: Monday, April 1, 2024
Time: 4:30 p.m. Eastern time (1:30 p.m. Pacific time)
U.S. dial-in: 877-407-3088
International dial-in: 201-389-0927
Confirmation: 13744636

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 DUOT@duostech.com.

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 using Machine Vision and Artificial Intelligence (“AI”) to analyze fast moving freight, passenger and transit trains and trucks streamlining operations, improving safety and reducing 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

Corporate

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

	For the Years Ended December 31, 2023	For the Years Ended December 31, 2022
REVENUES:		
Technology systems	$ 3,618,022	$ 11,190,292
Services and consulting	3,853,176	3,822,074
Total Revenues	7,471,198	15,012,366
COST OF REVENUES:		
Technology systems	4,352,247	8,376,649
Services and consulting	1,810,070	1,887,614
Total Cost of Revenues	6,162,317	10,264,263
GROSS MARGIN	1,308,881	4,748,103
OPERATING EXPENSES:		
Sales and marketing	1,493,309	1,337,186
Research and development	1,812,951	1,651,064
General and Administration	9,449,187	8,625,002
Total Operating Expenses	12,755,447	11,613,252
LOSS FROM OPERATIONS	(11,446,566)	(6,865,149)
OTHER INCOME (EXPENSES):		
Interest expense	(7,159)	(9,191)
Other income, net	212,007	9,557
Total Other Income (Expenses)	204,848	366
NET LOSS	$ (11,241,718)	$ (6,864,783)
Basic and Diluted Net Loss Per Share	$ (1.56)	$ (1.11)
Weighted Average Shares-Basic and Diluted	7,204,177	6,175,193

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		December 31, 2023		December 31, 2022
ASSETS				
CURRENT ASSETS:				
Cash	$	2,441,842	$	1,121,092
Accounts receivable, net		1,462,463		3,418,263
Contract assets		641,947		425,722
Inventory		1,526,165		1,428,360
Prepaid expenses and other current assets		184,478		441,320
Total Current Assets		6,256,895		6,834,757
Property and equipment, net		726,507		629,490
Operating lease right of use asset		4,373,155		4,689,931
Security deposit		550,000		600,000
OTHER ASSETS:				
Note Receivable, net		153,750		—
Patents and trademarks, net		129,140		69,733
Software development costs, net		652,838		265,208
Total Other Assets		935,728		334,941
TOTAL ASSETS	$	12,842,285	$	13,089,119
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	595,634	$	2,290,390
Notes payable - financing agreements		41,976		74,575
Accrued expenses		164,113		453,023
Equipment financing payable-current portion		—		22,851
Operating lease obligations-current portion		779,087		696,869
Contract liabilities		1,666,243		957,997
Total Current Liabilities		3,247,053		4,495,705
Operating lease obligations, less current portion		4,228,718		4,542,943
Total Liabilities		7,475,771		9,038,648
Commitments and Contingencies (Note 10)				
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 issued and outstanding at December 31, 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 December 31, 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 December 31, 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 December 31, 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; 11,500 and 0 issued and outstanding at December 31, 2023 and December 31, 2022, respectively, convertible into common stock at $3 per share		12		—
Series F convertible preferred stock, $1,000 stated value per share, 5,000 shares designated; 0 and 0 issued and outstanding at December 31, 2023 and December 31, 2022, respectively, convertible into common stock at $6.20 per share		—		—
Common stock: $0.001 par value; 500,000,000 shares authorized, 7,306,663 and 7,156,876 shares issued, 7,305,339 and 7,155,552 shares outstanding at December 31, 2023 and December 31, 2022, respectively		7,306		7,156
Additional paid-in-capital		69,120,199		56,562,600
Accumulated deficit		(63,603,552)		(52,361,834)
Sub-total		5,523,966		4,207,923

Less: Treasury stock (1,324 shares of common stock at December 31, 2023 and December 31, 2022)	(157,452)	(157,452)
Total Stockholders' Equity	5,366,514	4,050,471
Total Liabilities and Stockholders' Equity	$ 12,842,285	$ 13,089,119

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

	For the Years Ended December 31, 2023	For the Years Ended December 31, 2022
Cash from operating activities:		
Net loss	$ (11,241,718)	$ (6,864,783)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	550,201	350,192
Stock based compensation	710,047	819,191
Stock issued for services	143,065	157,500
Amortization of operating lease right of use asset	316,776	235,834
Changes in assets and liabilities:		
Accounts receivable	1,955,800	(1,679,720)
Note receivable	(153,750)	—
Contract assets	(216,225)	(422,273)
Inventory	(97,804)	(1,130,022)
Security deposit	50,000	—
Prepaid expenses and other current assets	744,771	266,539
Accounts payable	(1,694,756)	1,245,890
Accrued expenses	(289,209)	(165,069)
Operating lease obligation	(232,007)	184,728
Contract liabilities	708,245	(871,314)
Net cash used in operating activities	(8,746,564)	(7,873,307)
Cash flows from investing activities:		
Purchase of patents/trademarks	(69,327)	(18,190)
Purchase of software development	(527,896)	(281,783)
Purchase of fixed assets	(496,686)	(344,915)
Net cash used in investing activities	(1,093,909)	(644,888)
Cash flows from financing activities:		
Repayments of insurance and equipment financing	(520,529)	(331,175)
Repayment of finance lease	(22,851)	(80,335)
Proceeds from common stock issued	—	8,801,003
Issuance cost	(25,797)	(942,926)
Proceeds from shares issued under Employee Stock Purchase Plan	230,400	—
Proceeds from preferred stock issued	11,500,000	1,299,000
Net cash provided by financing activities	11,161,223	8,745,567
Net increase in cash	1,320,750	227,372
Cash, beginning of year	1,121,092	893,720
Cash, end of year	$ 2,441,842	$ 1,121,092
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 7,159	$ 9,292
Taxes paid	$ 29,085	$ 1,264
Supplemental Non-Cash Investing and Financing Activities:		
Notes issued for financing of insurance premiums	$ 487,929	$ 353,244

Duos Technologies
Fourth Quarter and Full Year 2023 Earnings Conference Call
April 1, 2024

Please Note: This transcript has been edited to correct certain numbers pertaining only to Q4 2023 and 2022 that, due to a scrivener's error in the original script, were incorrectly presented during the Conference Call. All numbers in the 10-K, the earnings press release and this transcript are accurate.

Presenters
Chuck Ferry, CEO
Andrew Murphy, CFO

Q&A Participants
Ed Woo - Ascendiant Capital Markets

Operator
Good afternoon. Welcome to Duos Technologies' Fourth Quarter and Full Year 2023 Earnings Conference Call.

Joining us for 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
Thank you. Welcome, everyone, and thanks for joining us. Earlier today, we issued a press release announcing our financial results for the fourth quarter and full year 2023, 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-K filing with the SEC to better understand some of the details we'll be discussing during our call.

Today, in addition to giving commentary on the recent financials, I'm going to update the assessment I gave during the last earnings call. During that call, I told you that I believed the company was in the best position it has ever been to achieve our strategy and long-term value for shareholders.

We anticipated the short-term financial headwinds, as manifested in our results for last year, would provide additional challenges for us in executing our strategy. I am pleased to report that, despite these challenges, our mid and long-term outlook remains unchanged, and I'm expecting much improved performance for 2024.

Outside of the most recent financial results, the company continues to make significant progress on many different strategic programs, and I'll be giving you a more comprehensive assessment in my commentary, following the financial report from our CFO.

What remains critical for us in the coming 12 months is to complete the transition from a volatile CapEx-only business to a technology-focused subscription business with steady recurring revenue. We'll update you on progress with our plan and the critical milestones to achieve this, after we review the financial results.

Over to you, 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.

Our results for Q4 and the full year exemplified this volatility in revenue, underscoring the challenges--the continued challenges in a purely CapEx model and supporting our ongoing efforts to focus on primarily subscription-based model in the future.

In addition, the company is currently pursuing certain opportunities that are within our technology-based expertise of machine vision and AI systems but addressing additional industries, which Chuck will speak to in his assessment. To be clear, the business results for Q4 2023 were disappointing, but anticipated based on delays out of our control with three of our existing customers.

Forecasting and timing of revenues for the railroad industry that is adopting new cutting-edge technology has been challenging, and we are making adjustments to ensure we achieve breakeven and make the business more predictable.

We remain strongly positioned within the rail sector and now within the artificial intelligence value chain to make this company proud. Let's now get into our results for the quarter and for the year.

Total revenue for the quarter decreased 74% to $1.53 million, compared to $5.93 million in the fourth quarter of 2022. Total revenue for the year decreased 50%, compared to 2022. Much of the decrease was due to customer-driven delays beyond the company's control during the ongoing production at the two high-speed transit focused RIPs and, thus, resulting in timing delays at the overall project delivery, shifting anticipated revenues into the second half of 2024.

The company also began its transition into a greater focus on AI software and support services, much of which are recurring revenue, where there was an increase in services and consulting revenues. Underlying recurring revenues climbed by approximately 23% on a year-over-year basis.

This growth is fueled by the expansion of service contracts following the completion of new portals in the early 2023, coupled with deployment of AI services deployed with several customers and the onset of a data subscription services contract with the transit customer. The company anticipates these revenue sources will continue growing, throughout 2024 and beyond.

Cost of revenues for the quarter decreased 68% to $1.22 million, compared to $3.79 million for Q4 of 2022. For the year, cost of revenues decreased 40% overall, due to the decrease in revenues previously noted. Cost of revenues on services and consulting decreased by 4% year-over-year, despite a small increase in revenues for this category, which is a positive trend.

The company continues to put into service additional artificial intelligence algorithms and maintenance and support services, which are high margin and represent only marginal increases in the requisite cost to deliver these services.

Gross margin in Q4 2023 decreased 86% to $303,000, compared to $2.14 million in Q4, 2022. For the year, gross margin decreased 72% for the year ended December 31, 2023, as compared to the same period, 2022. The decline was a direct result of project delays that were experienced in the latter half of 2023, offset by a slight increase in service and consulting contribution.

The business activity in 2023 consisted primarily of continued progression into the advanced stages of procurement manufacturing for these two transit focused RIPs.

Operating expenses for Q4 2023, increased 12% to $3.48 million, compared to $3.10 million for Q4 2022. For the year overall, operating expenses were 10% higher in 2023, as compared to full year 2022.

There was a 12% increase in sales and marketing related to the increased investment into the capability of the commercial team, including additional--the addition of professionals with extensive experience and leadership in the rail industry.

Additionally, a small increase in general and administrative costs was influenced by several factors, including noncash amortization charges associated with roughly 400,000 share options that were issued, during 2023.

In late 2023, the company took steps to rationalize some staff positions given the lower performance in 2023 with an anticipated impact of around $1 million in savings and operating costs, across 2024. These changes in expense reflect the company's ongoing efforts to invest in talent and expand capabilities in line with the long-term operating plan.

Net operating loss for Q4, 2023, totaled $3.18 million, compared to a net operating loss for approximately $1 million for Q4, 2022. The loss for operations for the year ended December 31, 2023 and 2022 were $11.4 million and $6.8 million, respectively. The increase in losses from operations during the year was a result of the temporary decline in system revenues stemming from a timing shift in business activity as well as project delays experienced in the latter half of 2023 that were beyond the company's control.

Net loss for the year ended December 31, 2023 and 2022 was $11.2 million and $6.8 million, respectively. The increase in net loss is primarily attributable to the delays of project activity in 2023, compared to 2022. This was offset slightly with an increase in the company's recurring services and consulting revenue.

Net loss per share was $1.56 and $1.10 for the years ended December 31, 2023 and 2022, respectively.

With regard to the balance sheet, we ended the year with approximately $3.27 million in cash and cash equivalents. We have an additional $0.25 million of receivables, as well as $1.35 million 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.

Just recently, the company took in net proceeds of more than $2.7 million from the sale of Series D and Series E convertible preferred stock with both existing and not--and new investors. As of this call, the company currently has approximately $3.4 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 this and previous capital infusions, and we appreciate their continued support as we implement our subscription platform.

At the end of the year, our contracts in backlog represented approximately $6.6 million in revenue, and we have approximately $6 million to $7 million in near-term renewals, contract modifications and near-term awards, providing additional visibility on future revenue performance and cash receipts.

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

As anticipated, the net short-term effect of our project delays out of our control during 2023 did not allow us to book sufficient revenue to meet our guidance range, which we withdrew in Q4.

The underlying positive news is that the lower revenue reported is the result of project delays, rather than contract cancellations. In fact, the majority of the revenues causing our miss of earlier guidance in 2023 are all expected to be booked during 2024.

We maintained sufficient capital to execute our near-term plans.

The business has no debt, and we hold inventory in the balance sheet and the capital necessary to execute the next two to three projects. This flexibility gives us the ability to execute contracts that we expect to be completed in the next two to three quarters with a lower cash outlay than normally forecasted.

That concludes my financial commentary. I'll now pass the call back to Chuck.

Chuck Ferry
Thank you, Andrew. We continue to be told by our current customers, potential customers, regulators and labor unions that our railcar inspection portal is best-in-class in terms of performance, reliability and standardization of the hardware, software, IT infrastructure and artificial intelligence.

We have shown the technology to a significant number of car manufacturers, owners and shippers and the audience is at first stunned by the capability and then the conversation turns how to turn--how to use this data which, to our knowledge, has never previously been available, how it can be used to increase overall return on investment in terms of safety, cost of risk, maintenance efficiencies and improvement to velocity and dwell metrics.

Recently, I've met with a senior leadership team for our large passenger customer, where they've been using the data from a subscription from several portals and are very excited by the excellent results they've received, thus far. We anticipate this customer will continue to expand the use of this technology in the future.

In 2023, we were requested to show the technology to more than 30 congressmen and senators on Capitol Hill and several state legislators and governors. We have also demonstrated the technology to the national leadership of mechanical carmen, who strongly believe this tool would greatly benefit rail safety, when used by qualified mechanical personnel.

We have also demonstrated our technology to the customs and border patrol agency and have shown them where we can discover suspected illegal riders with our machine vision and artificial intelligence detections. They are keen to use this solution to assist with the challenges of the border and it be used to increase CBP officer safety and help railroads get across the border, faster.

Our challenge is to turn that positive reaction into contracts that grow revenue and profits. Over the last three and a half years, Duos has significantly improved our technical reliability, installation speed and responsiveness to our customers. We've made major advances to our artificial intelligence portfolio, which has now been adopted by all of our current customers.

We have also, dramatically, increased the computing speed at the Edge for our artificial intelligence detections and making the results available in 60 seconds or less, which is much faster than our competitors and enables immediate safety notifications for locomotive engineers and dispatchers.

So, we've been--we have previously discussed diversifying our business to further enhance our position as a machine vision and artificial intelligence company into other verticals. We currently operate 13 Edge data centers with our railcar inspection portals that enable extremely fast computing power and artificial intelligence inferencing, which the industry calls AI at the Edge.

In fact, last year, we won an internal fast computing international sales competition sponsored by Dell Technologies, where we beat out all teams to include a well-known large defense contractor and another company that deploys satellites into space. Tune in to see media that has been or will be released by Dell Technologies and NVIDIA that discusses our advances in computing power at the Edge and our partnership, in general.

Given this expertise and partnering with Dell Technologies and NVIDIA, we are in discussions with several companies outside the rail industry to use our knowledge and expertise to support their Edge computing requirements, given the massive demand for artificial intelligence, computing and 5G rollout. This is aligned with our strategy to be an important part of the overall AI value chain.

Earlier this year, we issued a press release announcing that the U.S. Patent and Trademark Office granted us a patent for use of artificial intelligence to detect defects in trains and methods to use. This patent is important in several respects. Not only does it recognize our AI methodology, but it also covers how we acquire, compute and present the data with our railcar inspection tool. The great thing of this patent it shows the significant accomplishments and value of our hardware, software, IT and artificial intelligence teams.

We have also made progress in shifting our revenue model to become more software, artificial intelligence and services focused. Our recently signed deals with two major railroads for AI subscription and support services contracts is just the beginning, I believe a trend for other operators to engage us to provide automated inspections of railcars.

As a data point, our technology conducted scans of more than 8.5 million railcars, last year. That translates to 665,000 unique railcars, or approximately 40% of the total freight car population in North America.

We continue to invest in research and development, and we'll release a number of new technologies in 2024, including, but not limited to, a new version of our world-class Centraco platform, which is the software user interface that the mechanical car inspectors use to, virtually, inspect railcars. Centraco was originally designed to be the hub and interface for sensor-based systems and in the last three years, it has been extensively updated and hardened.

I will have more to say about this in future calls, but it's safe to say that the new version will be an important component in the generative AI value chain, supporting a large number of deployed algorithms, which are now in operation with all of our customers.

In some cases, these automated detections through the portals of machine vision systems are being used to obtain regulatory waivers. We are also now creating generative artificial intelligence to strengthen the training sets that make our AI use cases faster and more reliable.

As previously reported, we appointed Chris King as our Chief Commercial Officer. Chris worked for me as the Chief Commercial Officer at APR Energy, and he was a key leader responsible for growing that business from $225 million revenue in 2016 to more than $600 million of revenue in 2019. He has significant experience closing deals, and he's having a very positive impact here at Duos.

Our current backlog remains steady at around $6.6 million, and we are engaged in more than $100 million of opportunities that we expect to drive our growth both, this year and beyond. As part of that opportunity set, we are progressing in talks to build the first of several Duos-owned portals from which to sell data subscriptions located at heavily traffic railcar interchange points in the United States.

Furthermore, we have also identified, during discussions with several large telecommunications companies, to deploy Edge data centers in support of the AI infrastructure support chain.

On our last call, I outlined the risks to our plans, and it's worth reviewing them at this time. The primary risks continue to be project delays out of our control and timing of revenue recognition with current customers and the slow adoption of this technology with new customers in the rail sector.

We will continue to press hard into the rail sector, which we know will adopt our technology at a large scale, but also initiate efforts to diversify our offerings into the broader AI value chain.

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. We have developed a significant opportunity with our Edge data centers and other technology to provide additional value in the broader AI value chain. We will continue our efforts to transition from a CapEx business to a recurring revenue business in the coming 12 months.

I'd like to thank our current customers, which includes Amtrak, Canadian National, CPKC, CSX, Ferromex, Chicago Metro and L.A. Metro for their continued contract renewals. I also want to thank our long-term shareholders for their financial support, which has been critical to our success. I believe that our company is in a great position to significantly grow in value, despite our current financial results.

Thank you for your time, and we'll open the call for your questions. Operator, please provide the appropriate instructions.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press “*”, “2”, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset, before pressing the star keys. One moment please while we poll for questions.

Our first question comes from the line of Ed Woo with Ascendiant Capital Markets. Please proceed with your question

Ed Woo
Yeah, thank you for taking my questions, and congratulations on the progress. As we move further and further away from the major train accident in East Palestine, Ohio, last year, what's the regulatory environment? And do you see that the Legislators in Congress are still putting train safety as a high priority?

Chuck Ferry
Yeah, Ed, it's good to hear from you. So, I think just a brief update. So you've got the Railway Safety Act bill of 2023 waiting its turn on the Senate floor. And then it's still in committee over on the--over the House side. I think as we've--as you said, got further away from East Palestine and gotten closer to the national elections, I think the likelihood and I think the consensus is pretty common amongst all the industry stakeholders that the likelihood that that Railway Safety Act goes through, I think, is diminishing.

I think that we have though said publicly a number of times is that, despite that fact, the railroads in general, the rail industry has gotten a lot more focused on safety, in general. We've seen a lot of our Class I customers as well as short lines, make investments quietly into additional wayside detection technologies. We're in discussion with a lot of them about ours.

I think you've also got what we've said before that our strategy to expand our technology on a larger scale into this industry should not rely and does not rely on the passage of that bill. Since East Palestine, we've gotten a lot more commercial activity. We said before, it takes a little while to move from inquiry to contract here with the large Class 1s. But we are making progress, and I expect to announce some of that in the coming quarters. Hopefully, that answers the question.

Ed Woo
Yes, it does. Thank you, and I wish you guys good luck. Thank you.

Chuck Ferry
Okay, appreciate it Thank you, Ed. So I don't see another question right this moment. We do have--I'm sorry, go ahead, Moderator.

Operator
Apologies, management will now take select listeners' submitted questions.

Chuck Ferry
Okay. So we did--we took some written questions, and I will work through a couple of them that I think are appropriate here. So one of the questions was, there's been several articles recently published in railway trends websites regarding CRISI grants and potential inspections of machine vision projects. Can you comment if Duos has been awarded in CRISI-related projects?

So it's a good question. And we did see some recent press release related to CRISI projects. At this point right now, we cannot confirm any awards related to CRISI projects. However, we can say that several of our existing customers, potential new customers appear to either be expecting to receive CRISI money or, in some cases, have actually received some CRISI money, and we believe some of those will bear fruit for us, here in 2024.

The next question, again, which is a good one, I alluded to it in my comments. It says, you've mentioned before about diversifying the business to enhance Duos' position with AI and machine vision. And can you further elaborate on this?

So, Duos has already had and continues to establish a reputation for delivering fast, real-time data-driven results for our rail customers. Part and parcel with our railcar inspection portal, we've now got years of experience conducting edge computing where we're doing this AI edge processing and inferencing is what they call it. And all that sits out in those Edge data centers.

And so we've gotten a lot of experience in that. And recently, in partnership with both Dell and NVIDIA, we've been introduced to a different set of folks in the telecommunications industry that are interested in seeking our assistance in placing Edge data centers out. This is something we've been quietly working on for the last year. But now we think we're actually going to see some progress on that, here in the near term.

Again, the overall goal is to participate in the AI value chain writ large, which this is directly and squarely in. And it's also designed to further drive our desire to get into a more recurring revenue versus the onetime CapEx revenue.

And I think we'll take maybe one more here. So--yes, the question here was, can you comment more on your partnerships with Dell and NVIDIA?

So, we've been partnered with Dell and NVIDIA probably for more than three years now. Those partnerships have actually strengthened, particularly in the last 18 months. Again, with Dell, we've been doing some--we use commercial off-the-shelf servers from Dell, or Edge servers, but they had some bespoke capabilities to it, as does NVIDIA to create what we do out at the Edge with our railcar artificial intelligence.

Recently, there has been social media posts from both of those companies about our progress in the rail vertical. And I think Dell, in particular, and I think NVIDIA probably a little bit later, also had some follow-on marketing that they're doing with us, and we're in discussion with both companies to see how we can--obviously, those two large companies are very large technical companies that we'd like to be partnered with.

And the good news is that we're able to engage them at some pretty senior levels to continue our efforts in this rail space.

So with that, I think we've approached our timeline, and I'd like to turn it back over to our moderator, please.

Operator
Thank you. At this time, this concludes our question-and-answer session. I'd now like to turn the call back over to Mr. Ferry for his closing remarks.

Chuck Ferry
Yeah, I really appreciate everybody joining the call, and we look forward to follow on calls to give you updates on the business. Thank you.

Operator
Before we conclude today's call, I would like to provide you a safe harbor statement that includes important cautions regarding forward-looking statements made during this call.

This earnings call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking terminologies 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 and 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 Fourth Quarter and Full Year 2023 Earnings Call. You may now disconnect.