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

FORM 10-Q

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from ________________ to ________________

Commission file number 000-55497

Duos Technologies Group, Inc.

(Exact name of registrant as specified in its charter)

Florida	**65-0493217**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

7660 Centurion Parkway, Suite 100,
Jacksonville, Florida 32256
(Address of principal executive offices)

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

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	**DUOT**	**The Nasdaq Capital Market**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

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

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

As of August 9, 2022, the registrant has one class of common equity, and the number of shares outstanding of such common equity is 6,105,885.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash	$ 6,268,429	$ 893,720
Accounts receivable, net	321,260	1,738,543
Contract assets	702,372	3,449
Inventory	780,218	298,338
Prepaid expenses and other current assets	718,294	354,613
Total Current Assets	8,790,573	3,288,663
Property and equipment, net	601,824	603,253
Operating lease right of use asset	4,767,219	4,925,765
Security deposit	740,793	600,000
OTHER ASSETS:		
Patents and trademarks, net	76,911	66,482
Software development costs, net	14,583	—
Total Other Assets	91,494	66,482
TOTAL ASSETS	$ 14,991,903	$ 9,484,163
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,306,992	$ 1,044,500
Notes payable - financing agreements	166,686	52,503
Accrued expenses	515,477	618,093
Equipment financing payable-current portion	54,373	80,335
Operating lease obligations-current portion	510,028	315,302
Contract liabilities	5,015,450	1,829,311
Total Current Liabilities	7,569,006	3,940,044
Equipment financing payable, less current portion	—	22,851
Operating lease obligations, less current portion	4,591,541	4,739,783
Total Liabilities	12,160,547	8,702,678
Commitments and Contingencies (Note 4)		
STOCKHOLDERS' EQUITY:		
Preferred stock: $0.001 par value, 10,000,000 authorized, 9,480,000 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 June 30, 2022 and December 31, 2021 convertible into common stock at $6.30 per share	—	—
Series B convertible preferred stock, $1,000 stated value per share, 15,000 shares designated; 851 and 851 issued and outstanding at June 30, 2022 and December 31, 2021, convertible into common stock at $7 per share	851,000	851,000
Series C convertible preferred stock, $1,000 stated value per share, 5,000 shares designated; 0 issued and outstanding at June 30, 2022 and 2,500 issued and outstanding at December 31, 2021, convertible into common stock at $5.50 per share	—	2,500,000
Common stock: $0.001 par value; 500,000,000 shares authorized, 6,107,209 and 4,111,047 shares issued, 6,105,885 and 4,109,723 shares outstanding at June 30, 2022 and December 31, 2021, respectively	6,107	4,111
Additional paid-in-capital	51,616,040	43,080,877
Total stock & paid-in-capital	52,473,147	46,435,988
Accumulated deficit	(49,484,339)	(45,497,051)
Sub-total	2,988,808	938,937
Less: Treasury stock (1,324 shares of common stock at June 30, 2022 and December 31, 2021)	(157,452)	(157,452)
Total Stockholders' Equity	2,831,356	781,485
Total Liabilities and Stockholders' Equity	$ 14,991,903	$ 9,484,163

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
REVENUES:				
Technology systems	$ 2,780,045	$ 100,401	$ 3,563,314	$ 1,590,699
Services and consulting	837,097	548,267	1,493,144	1,212,723
Total Revenues	3,617,142	648,668	5,056,458	2,803,422
COST OF REVENUES:				
Technology systems	1,974,302	506,128	2,839,790	1,799,738
Services and consulting	360,226	412,299	711,988	770,471
Total Cost of Revenues	2,334,528	918,427	3,551,778	2,570,209
GROSS MARGIN	1,282,614	(269,759)	1,504,680	233,213
OPERATING EXPENSES:				
Sales and marketing	375,986	351,251	659,880	663,053
Research and development	530,339	468,561	967,056	876,656
General and Administration	1,770,764	1,858,896	3,913,837	3,464,272
Total Operating Expenses	2,677,089	2,678,708	5,540,773	5,003,981
LOSS FROM OPERATIONS	(1,394,475)	(2,948,468)	(4,036,093)	(4,770,768)
OTHER INCOME (EXPENSES):				
Interest expense	(2,706)	(5,541)	(5,886)	(11,761)
Other income, net	54,509	1,129	54,691	1,423,626
Total Other Income (Expenses)	51,803	(4,412)	48,805	1,411,865
NET LOSS	$ (1,342,672)	$ (2,952,880)	$ (3,987,288)	$ (3,358,903)
Basic Net Loss Per Share	$ (0.22)	$ (0.83)	$ (0.70)	$ (0.95)
Diluted Net Loss Per Share	$ (0.22)	$ (0.83)	$ (0.70)	$ (0.95)
Weighted Average Shares - Basic	6,096,541	3,553,718	5,727,133	3,544,579
Weighted Average Shares - Diluted	6,096,541	3,553,718	5,727,133	3,544,579

See accompanying condensed notes to the unaudited consolidated financial statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2022 and 2021
(Unaudited)

	Preferred Stock B		Preferred Stock C		Common Stock		Additional Paid-in-Capital	Accumulated Deficit	Treasury Stock	Total
	# of Shares	Amount	# of Shares	Amount	# of Shares	Amount				
Balance December 31, 2021	851	$ 851,000	2,500	$ 2,500,000	4,111,047	$ 4,111	$ 43,080,877	$ (45,497,051)	$ (157,452)	$ 781,485
Series C preferred stock converted to common stock	—	—	(2,500)	(2,500,000)	454,546	455	2,499,545	—	—	—
Stock options compensation	—	—	—	—	—	—	250,577	—	—	250,577
Common stock issued for cash	—	—	—	—	1,523,750	1,524	6,093,476	—	—	6,095,000
Stock issuance cost	—	—	—	—	—	—	(576,650)	—	—	(576,650)
Stock issued for services	—	—	—	—	7,198	7	39,993	—	—	40,000
Net loss for the three months ended March 31, 2022	—	—	—	—	—	—	—	(2,644,616)	—	(2,644,616)
Balance March 31, 2022	851	$ 851,000	—	$ —	6,096,541	$ 6,097	$ 51,387,818	$ (48,141,667)	$ (157,452)	$ 3,945,796
Stock options compensation	—	—	—	—	—	—	188,232	—	—	188,232
Stock issued for services	—	—	—	—	10,668	10	39,990	—	—	40,000
Net loss for the three months ended June 30, 2022	—	—	—	—	—	—	—	(1,342,672)	—	(1,342,672)
Balance June 30, 2022	851	$ 851,000	—	$ —	6,107,209	$ 6,106	$ 51,616,040	$ (49,484,339)	$ (157,452)	$ 2,831,356
Balance December 31, 2020	1,705	1,705,000	—	—	3,535,339	3,536	39,820,874	(39,488,150)	(157,452)	1,883,808
Stock options compensation	—	—	—	—	—	—	76,301	—	—	76,301
Series C preferred stock issued	—	—	4,500	4,500,000	—	—	—	—	—	4,500,000
Net loss for the three months ended March 31, 2021	—	—	—	—	—	—	—	(406,023)	—	(406,023)
Balance March 31, 2021	1,705	$ 1,705,000	4,500	$ 4,500,000	3,535,339	$ 3,536	$ 39,897,175	$ (39,894,173)	$ (157,452)	$ 6,054,086
Stock options compensation	—	—	—	—	—	—	76,862	—	—	76,862
Common stock issued for cash less warrants exercised	—	—	—	—	50,588	50	(50)	—	—	—
Net loss for the three months ended June 30, 2021	—	—	—	—	—	—	—	(2,952,880)	—	(2,952,880)
Balance June 30, 2021	1,705	$ 1,705,000	4,500	$ 4,500,000	3,585,927	$ 3,586	$ 39,973,987	$ (42,847,053)	$ (157,452)	$ 3,178,068

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Cash from operating activities:		
Net loss	$ (3,987,288)	$ (3,358,903)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	145,627	171,382
Stock based compensation	438,809	153,163
Stock issued for services	80,000	—
PPP loan forgiveness including accrued interest	—	(1,421,577)
Amortization of operating lease right of use asset	158,547	106,676
Changes in assets and liabilities:		
Accounts receivable	1,458,592	902,871
Contract assets	(698,923)	(50,331)
Inventory	(481,880)	(20,166)
Prepaid expenses and other current assets	(218,198)	118,221
Accounts payable	268,425	(69,638)
Payroll taxes payable	—	(3,146)
Accrued expenses	(108,550)	66,338
Operating lease obligation	46,485	(110,843)
Contract liabilities	3,186,138	297,050
Net cash provided (used) in operating activities	287,784	(3,218,903)
Cash flows from investing activities:		
Purchase of patents/trademarks	(13,660)	(7,435)
Purchase of software development	(15,000)	—
Purchase of fixed assets	(140,549)	(184,492)
Net cash used in investing activities	(169,209)	(191,927)
Cash flows from financing activities:		
Repayments of insurance and equipment financing	(213,404)	(191,798)
Repayment of finance lease	(48,812)	(43,527)
Proceeds from common stock issued	6,095,000	—
Issuance cost	(576,650)	—
Proceeds from preferred stock issued	—	4,500,000
Net cash provided by financing activities	5,256,134	4,264,675
Net increase in cash	5,374,709	853,845
Cash, beginning of period	893,720	3,969,100
Cash, end of period	$ 6,268,429	$ 4,822,945
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 5,984	$ 22,339
Taxes paid	$ 1,264	$ —
Supplemental Non-Cash Investing and Financing Activities:		
Notes issued for financing of insurance premiums	$ 327,586	$ 303,487

See accompanying condensed notes to the unaudited consolidated financial statements.

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

Nature of Operations

Duos Technologies Group, Inc. (the "Company"), through its operating subsidiaries, Duos Technologies, Inc. and TrueVue360, Inc. (collectively the "Company"), develops and deploys vision based analytical technology solutions that will help to transform precision railroading, logistics and inter-modal transportation operations. Additionally, these unique patented solutions can be employed into many other industries.

The Company has developed the Railcar Inspection Portal (RIP) that provides both freight and transit railroad customers and select government agencies the ability to conduct fully automated inspections of trains while they are in transit. The system, which incorporates a variety of sophisticated optical technologies, illumination and other sensors, scans each passing railcar to create an extremely high-resolution image set from a variety of angles including the undercarriage. These images are then processed through various methods of artificial intelligence ("AI") algorithms to identify specific defects and/or areas of interest on each railcar. This is all accomplished within minutes of a railcar passing through our portal. This solution has the potential to transform the railroad industry by increasing safety, improving efficiency and reducing costs. The Company has successfully deployed this system with several Class 1 railroad customers and anticipates an increased demand in the future. Government agencies can conduct digital inspections combined with the incorporated AI to improve rail traffic flow across borders which also directly benefits the Class 1 railroads through increasing their velocity.

The Company has also developed the Automated Logistics Information System (ALIS) which automates and reduces/removes personnel from gatehouses where trucks enter and exit large logistics and intermodal facilities. This solution also incorporates sensors and data points as necessary for each operation and directly interconnects with backend logistics databases and processes to streamline operations and significantly improve operations and security and importantly dramatically improves the vehicle throughput on each lane on which the technology is deployed.

The Company has built a portfolio of IP and patented solutions that creates "actionable intelligence" using two core native platforms called Centraco® and Praesidium™. All solutions provided include a variant of both applications. Centraco is designed primarily as the user interface to all our systems as well as the backend connection to third-party applications and databases through both Application Programming Interfaces (APIs) and Software Development Kits (SDKs). This interface is browser based and hosted within each one of our systems and solutions. It is typically also customized for each unique customer and application. Praesidium typically resides as middleware in our systems and manages the various image capture devices and some sensors for input into the Centraco software.

The Company also developed a proprietary Artificial Intelligence (AI) software platform, Truevue360™ with the objective of focusing the Company's advanced intelligent technologies in the areas of AI, deep machine learning and advanced multi-layered algorithms to further support our solutions. The Company also offers technical support services for the above products.

The Company also provided professional and consulting services for large data centers and had developed a system for the automation of asset information marketed as DcVue™. The Company had deployed its DcVue software at one beta site. This software was used by Duos' consulting auditing teams. DcVue was based upon the Company's OSPI patent which was awarded in 2010. The Company offered DcVue available for license to our customers as a licensed software product. The Company ceased offering this product in 2021.

The Company's strategy is to deliver operational and technical excellence to our customers, expand our RIP and ALIS solutions into current and new customers focused in the Rail, Logistics and U.S. Government Sectors, offer both CAPEX and OPEX pricing models to customers that increases recurring revenue, grows backlog and improves profitability, responsibly grow the business both organically and through selective acquisitions, and promote a performance-based work force where employees enjoy their work and are incentivized to excel and remain with the Company.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (all of which are of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022 or for any other future period. These unaudited consolidated financial statements and the unaudited condensed notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission (the "SEC") on March 31, 2022.

Reclassifications

The Company reclassified certain expenses for the three months ended June 30, 2021 to conform to 2022 classification. There was no net effect on the total expenses of such reclassification.

The following tables reflect the reclassification adjustment effect in the three months ended June 30, 2021:

	Before Reclassification For the Three Months Ended June 30, 2021		After Reclassification For the Three Months Ended June 30, 2021
REVENUES:		REVENUES:	
Technology systems	$ 100,401	Technology systems	$ 100,401
Services and consulting	548,267	Services and consulting	548,267
Total Revenue	648,668	Total Revenue	648,668
COST OF REVENUES:		COST OF REVENUES:	
Technology systems	1,214,370	Technology systems	506,128
Services and consulting	378,319	Services and consulting	412,299
Overhead	593,231	—	—
Total Cost of Revenues	2,185,920	Total Cost of Revenues	918,427
GROSS MARGIN	(1,537,252)	GROSS MARGIN	(269,759)
OPERATING EXPENSES:		OPERATING EXPENSES:	
Sales and marketing	351,251	Sales and marketing	351,251
Research and development	79,131	Research and development	468,561
General and administration	980,834	General and administration	1,858,896
Total Operating Expenses	1,411,216	Total Operating Expenses	2,678,708
LOSS FROM OPERATIONS	$ (2,948,467)	LOSS FROM OPERATIONS	$ (2,948,467)

The Company reclassified certain expenses for the six months ended June 30, 2021 to conform to 2022 classification. There was no net effect on the total expenses of such reclassification.

The following tables reflect the reclassification adjustment effect in the six months ended June 30, 2021:

	Before Reclassification For the Six Months Ended June 30, 2021		After Reclassification For the Six Months Ended June 30, 2021
REVENUES:		REVENUES:	
Technology systems	$ 1,590,699	Technology systems	$ 1,590,699
Services and consulting	1,212,723	Services and consulting	1,212,723
Total Revenue	2,803,422	Total Revenue	2,803,422
COST OF REVENUES:		COST OF REVENUES:	
Technology systems	3,109,855	Technology systems	1,799,738
Services and consulting	709,703	Services and consulting	770,471
Overhead	1,096,824	—	—
Total Cost of Revenues	4,916,382	Total Cost of Revenues	2,570,209
GROSS MARGIN	(2,112,960)	GROSS MARGIN	233,213
OPERATING EXPENSES:		OPERATING EXPENSES:	
Sales and marketing	663,052	Sales and marketing	663,053
Research and development	140,164	Research and development	876,656
General and administration	1,854,592	General and administration	3,464,272
Total Operating Expenses	2,657,808	Total Operating Expenses	5,003,981
LOSS FROM OPERATIONS	$ (4,770,768)	LOSS FROM OPERATIONS	$ (4,770,768)

Principles of Consolidation

The unaudited consolidated financial statements include Duos Technologies Group, Inc. and its wholly owned subsidiaries, Duos Technologies, Inc and TrueVue360 Inc. All inter-company transactions and balances are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The most significant estimates in the accompanying unaudited consolidated financial statements include the allowance on accounts receivable, valuation of deferred tax assets, valuation of intangible and other long-lived assets, estimates of net contract revenues and the total estimated costs to determine progress towards contract completion, estimates of the valuation of right of use assets and corresponding lease liabilities, valuation of warrants issued with debt and valuation of stock-based awards. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Concentrations

Cash Concentrations

Cash is maintained at financial institutions and at times, balances may exceed federally insured limits. We have not experienced any losses related to these balances. As of June 30, 2022, the balance in one financial institution exceeded federally insured limits by approximately $5,835,950.

Significant Customers and Concentration of Credit Risk

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

For the six months ended June 30, 2022, four customers accounted for 22% ("Customer 2"), 26% ("Customer 1"), 24% ("Customer 3") and 18% ("Customer 4") of revenues. For the six months ended June 30, 2021, one customer accounted for 69% ("Customer 2") of revenues. In all cases, there is no minimum contract value stated. Each contract covers an agreement to deliver a rail inspection portal which, once accepted, must be paid in full with 30% or more being due and payable prior to delivery. The balances of the contracts are for service and maintenance which is paid annually in advance with revenues recorded ratably over the contract period. Each of the customers referenced has the following termination provisions:

· Customer 1, termination can be made, prior to delivery of products or services, in the case where either party breaches any of its obligations under the agreement between the parties. The other party may terminate the agreement effective 15 Business Days following notice from the non-defaulting party, if the non-performance has not been cured within such period, and without prejudice to damages that could be claimed by the non-defaulting party. Either party may terminate the agreement if the other party becomes unable to pay its debts in the ordinary course of business; goes into liquidation (other than for the purpose of a genuine amalgamation or restructuring); has a receiver appointed over all or part of its assets; enters into a composition or voluntary arrangement with its creditors; or any similar event occurs in any jurisdiction, all to the extent permitted by law.

- For Customer 2, prior to delivery of products or services, either party may terminate the agreement between the parties upon the other party's material breach of a representation, warranty, term, covenant or undertaking in the agreement if, within 30 days following the delivery of a written notice to the defaulting party setting forth in reasonable detail the basis of such default, the defaulting party has not rectified such default to the reasonable satisfaction of the non-defaulting party. Failure to perform due to a force majeure condition shall not be considered a material default under the agreement.

- For Customer 3, prior to delivery of products or services if the customer terminates the statement of work for convenience, no refund of any advance payments will be due to Customer 3. In the event of a material breach by the Company, which breach is not cured, or cure has not begun within 30 days of written notice to the Company by Customer 3, Customer 3 may terminate this statement of work for cause. In the event of termination by Customer 3 for cause, the Company shall reimburse Customer 3 any unused prepaid fees on a pro rata basis.

- For Customer 4, if the customer terminates this Agreement for convenience, no refund, of any advance payments, will be due to Customer 4 and after taking appropriate mitigating actions, may submit to the Customer a claim for termination costs. Such costs will not exceed the unpaid balance of the contract. In the event of a material breach by Duos, which breach is not cured, or cure has not begun within 10 days of written notice to Duos by Customer 4, Customer 4 may terminate this Agreement for cause. In the event of termination by Customer 4 for cause, Duos shall reimburse Customer for any costs, losses and damages suffered or incurred arising from such event of default. Duos has secured a Performance and Payment Bond for specific project work be undertaken by the Company for Customer 4.

At June 30, 2022, four customers accounted for 46%, 20%, 15% and 12% of accounts receivable. At December 31, 2021, two customers accounted for 81% and 10%, of accounts receivable. Much of the credit risk is mitigated since all of the customers listed here are Class 1 railroads or large government funded national railroad. The Class 1 railroads have a multi-year history of timely payments to us.

Geographic Concentration

For the six months ended June 30, 2022, approximately 51% of revenue was generated from three customers outside of the United States. For the six months ended June 30, 2021, approximately 75% of revenue was generated from three customers outside of the United States. These customers are Canadian and Mexican, and two of the three are Class 1 railroads operating in the United States.

Significant Vendors and Concentration of Credit Risk

At June 30, 2022, two vendors accounted for 17% and 11% of accounts payable. At December 31, 2021, one vendor accounted for 14% of accounts payable.

One supplier accounted for approximately 12% of total purchases for the six months ended June 30, 2022. One supplier accounted for approximately 21% of total purchases for six months ended June 30, 2021.

Fair Value of Financial Instruments and Fair Value Measurements

The Company follows Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures" ("ASC 820"), for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that requires the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions that the market participants would use in the valuation of the asset or liability based on the best available information.

The Company analyzes all financial instruments with features of both liabilities and equity under the Financial Accounting Standard Board's ("FASB") accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The estimated fair value of certain financial instruments, including accounts receivable, prepaid expense, accounts payable, accrued expenses and notes payable are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

Software Development Costs

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

Earnings (Loss) Per Share

Basic earnings per share (EPS) are computed by dividing net loss applicable to common stock by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss applicable to common stock by the weighted average number of common shares outstanding for the period and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise or conversion of stock options, stock warrants, convertible debt instruments, convertible preferred stock or other common stock equivalents. Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. At June 30, 2022, there was an aggregate of 1,376,466 outstanding warrants to purchase shares of common stock. At June 30, 2022, there were employee stock options to purchase an aggregate of 986,266 shares of common stock. Also, at June 30, 2022, 121,571 common shares were issuable upon conversion of Series B convertible preferred stock all of which were excluded from the computation of dilutive earnings per share because their inclusion would have been anti-dilutive.

Accounts Receivable

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

Inventory

Inventory consists primarily of spare parts and consumables to be used in the production of our technology systems or in connection with maintenance agreements with customers. Inventory is stated at the lower of cost or net realizable value. Inventory cost is primarily determined using the weighted average cost method.

Revenue Recognition

The Company follows Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606"), that affects the timing of when certain types of revenues will be recognized. The basic principles in ASC 606 include the following: a contract with a customer creates distinct contract assets and performance obligations, satisfaction of a performance obligation creates revenue, and a performance obligation is satisfied upon transfer of control to a good or service to a customer.

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

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

The Company generates revenues from four sources:

1. Technology Systems;
2. AI Technology;
3. Technical Support; and
4. Consulting Services.

Technology Systems

For revenues related to technology systems, the Company recognizes revenue over time using a cost-based input methodology in which significant judgment is required to estimate costs to complete projects. These estimated costs are then used to determine the progress towards contract completion and the corresponding amount of revenue to recognize.

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

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

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

AI Technologies

The Company has revenue from applications that incorporate artificial intelligence (AI) in the form of predetermined algorithms which provide important operating information to the users of our systems. The revenue generated from these applications of AI consists of a fixed fee related to the design, development, testing and incorporation of new algorithms into the system, which is recognized as revenue at a point in time upon acceptance, as well as an annual application maintenance fee, which is recognized as revenue ratably over the contracted maintenance term.

Technical Support

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

Consulting Services

The Company's consulting services business generates revenues under contracts with customers from three sources: (1) Professional Services (consulting and auditing); (2) Software licensing with optional hardware sales; and (3) Customer service training and (4) Maintenance support.

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

Multiple Performance Obligations and Allocation of Transaction Price

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

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

Segment Information

The Company operates in one reportable segment.

Stock-Based Compensation

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

Determining Fair Value Under ASC 718-10

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

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

Leases

The Company follows ASC 842 "Leases". This guidance requires lessees to recognize right-of-use ("ROU") assets and lease liabilities for most operating leases. In addition, this guidance requires that lessors separate lease and non-lease components in a contract in accordance with the revenue guidance in ASC 606.

The Company made an accounting policy election to not recognize short-term leases with terms of twelve months or less on the balance sheet and instead recognize the lease payments in expense as incurred. The Company has also elected to account for real estate leases that contain both lease and non-lease components as a single lease component.

At the inception of a contract the Company assesses whether the contract is, or contains, a lease. The Company's assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether it has the right to direct the use of the asset.

Operating ROU assets represent the right to use the leased asset for the lease term and operating lease liabilities are recognized based on the present value of minimum lease payments over the lease term at commencement date. As most leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at the lease commencement date to determine the present value of future payments. The lease term includes all periods covered by renewal and termination options where the Company is reasonably certain to exercise the renewal options or not to exercise the termination options. Operating lease expense is recognized on a straight-line basis over the lease term and is included in general and administrative expenses in the consolidated statements of operations.

Recent Accounting Pronouncements

From time to time, the FASB or other standards setting bodies will issue new accounting pronouncements. Updates to the FASB ASC are communicated through issuance of an Accounting Standards Update ("ASU").

In August 2020, the FASB issued an accounting pronouncement (ASU 2020-06) related to the measurement and disclosure requirements for convertible instruments and contracts in an entity's own equity. The pronouncement simplifies and adds disclosure requirements for the accounting and measurement of convertible instruments and the settlement assessment for contracts in an entity's own equity. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2023. The Company early adopted this pronouncement for our fiscal year beginning January 1, 2022, and it did not have a material effect on our unaudited consolidated financial statements.

In May 2021, the FASB issued an accounting pronouncement (ASU 2021-04) related to modifications or exchanges of freestanding equity-classified written call options (such as warrants) that remain equity classified after modification or exchange. The pronouncement states that an entity should treat the modification as an exchange of the original instrument for a new instrument, and the effect of the modification should be calculated as the difference between the fair value of the modified instrument and the fair value of that instrument immediately before modification. An entity should then recognize the effect of the modification on the basis of the substance of the transaction, in the same manner as if cash had been paid as consideration. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021. The pronouncement will be applied prospectively to all modifications that occur after the initial date of adoption. We adopted this pronouncement for our fiscal year beginning January 1, 2022, and it did not have a material effect on our unaudited consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

NOTE 2 – LIQUIDITY

As reflected in the accompanying unaudited consolidated financial statements, the Company had a net loss of $3,987,288 for the six months ended June 30, 2022. During the same period, cash provided in operating activities was $287,784. The working capital surplus and accumulated deficit as of June 30, 2022 were $1,221,567 and $49,484,339, respectively. In one previous financial reporting period during 2021, the Company had raised substantial doubt about continuing as a going concern. This was principally due to a lack of working capital prior to an underwritten common stock offering which was completed during the first quarter of 2022 (the "2022 Offering").

During the previous 18 months, the Company has raised more than $10 million after fees and expenses, both from existing shareholders through the issuance of Series C Convertible Preferred Stock and in the first quarter of 2022, a follow-on common stock offering using its previously filed "shelf" registration. Although, further additional investment is not assured, the Company believes that it would be able to raise sufficient capital to support expanded operations based on an anticipated increase in business activity and the recent improvement in the capital markets. In the long run, the continuation of the Company as a going concern is dependent upon the ability of the Company to continue executing the plan described above, generate enough revenue, and eventually attain consistently profitable operations. Although the current global pandemic related to the coronavirus (COVID-19) has affected our operations, particularly in supply chain, we now believe that this is expected to be an ongoing issue and our working capital assumptions reflect this new reality. The Company cannot currently quantify the uncertainty related to the pandemic and its effects on our customers in the coming quarters. We have analyzed our cash flow under "stress test" conditions and have determined that we have sufficient liquid assets on hand to maintain operations for at least twelve months from the date of this report. A notable recent success is the "bonding" secured in the amount of approximately $8 million for a major project for which the Company recently received full "notice to proceed".

The Company was successful in securing a loan of $1,410,270 during the second quarter of 2020 from the Small Business Administration via the PPP/CARES Act program which further bolstered the Company's cash reserves. This loan was forgiven in the first quarter of 2021 and leaves the Company essentially debt free other than the normal course of business equipment and insurance financing as reflected in Note 3 to these financial statements. The Company has also been successful in increasing its working capital surplus after receiving proceeds in 2021 of $4,500,000 and more recently, in the first quarter of 2022, receiving net proceeds of approximately $5,500,000 from the successful sales of common stock under the Company's "shelf registration" statement as previously mentioned. This gives us the capital required to fund the fundamental business changes that we are executing including organization, product alignment and market focus and maintenance of our business strategy overall. In addition, management has been taking and continues to take actions including, but not limited to, elimination of certain costs that do not contribute to short term revenue, and re-aligning both management and staffing with a focus on improving certain skill sets necessary to build growth and profitability and focusing product strategy on opportunities that are likely to bear results in the relatively short term. During 2021, management took further significant actions including reorganizing our engineering and technical teams and selectively improving organizational efficiency to effectively grow the business in concert with the influx of business won in late 2021 and early 2022. Upon completion of the 2022 Offering, management has raised sufficient working capital to meet its needs for the next 12-months without the need to raise further capital. The Company had experienced a significant slowdown in closing new projects due to cautious actions by current and potential clients as a result of COVID-19 but this appears to be abating as time passes. We continue to be successful in identifying new business opportunities and are focused on maintaining a backlog of projects.

Management believes that, at this time, the conditions in our market space with ongoing contract delays, the consequent need to procure certain materials in advance of a binding contract and the additional time needed to execute on new contracts previously reported have put a strain on our cash reserves. However, recent events including an approximate $5.5 million injection of funds from the 2022 Offering, significant recent orders and the overall stabilization of the business indicate that there is no longer substantial doubt for the Company to continue as a going concern for a period of twelve months from the issuance of this report. We will continue executing the plan to grow our business and eventually achieve profitability without the requirement to raise additional capital for existing operations for 2022 although we may do so to fund selective opportunities that may arise. Management has extensively evaluated our requirements for the next 12 months and has determined that the Company currently has sufficient cash to operate for at least that period.

NOTE 3 – DEBT

Notes Payable - Financing Agreements

The Company's notes payable relating to financing agreements classified as current liabilities consist of the following as of June 30, 2022 and December 31, 2021:

	June 30, 2022		December 31, 2021	
Notes Payable	Principal	Interest	Principal	Interest
Third Party - Insurance Note 1	$ 10,317	7.75%	$ 22,266	7.75%
Third Party - Insurance Note 2	52,441	6.24%	12,667	6.24%
Third Party - Insurance Note 3	3,918	—	17,570	—
Third Party - Insurance Note 4	100,010	—	—	—
Total	$ 166,686		$ 52,503	

The Company entered into an agreement on December 23, 2021 with its insurance provider by issuing a $22,266 note payable (Insurance Note 1) for the purchase of an insurance policy, secured by that policy with an annual interest rate of 7.75% payable in monthly installments of principal and interest totaling $2,104 through November 23, 2022. The balance of Insurance Note 1 as of June 30, 2022 and December 31, 2021 was $10,317 and $22,266, respectively.

The Company entered into an agreement on April 15, 2021 with its insurance provider by issuing a note payable (Insurance Note 2) in the amount of $62,041, secured with an annual interest rate of 6.24% and payable in 10 monthly installments of principal and interest totaling $6,383. The policy renewed on April 15, 2022 and, in connection therewith, the Company issued a new note payable to the insurer on April 15, 2022 in the amount $63,766 secured with an annual interest rate of 6.24% and payable in 11 monthly installments of principal and interest totaling $5,979. At June 30, 2022 and December 31, 2021, the balance of Insurance Note 2 was $52,441 and $12,667, respectively.

The Company entered into an agreement on September 15, 2021 with its insurance provider by issuing a note payable (Insurance 3) in the amount of $19,965 and payable in 10 monthly installments of $1,997. At June 30, 2022 and December 31, 2021, the balance of Insurance Note 3 was $3,918 and $17,570, respectively.

The Company entered into an agreement on February 3, 2021 with its insurance provider by issuing a note payable (Insurance 4) in the amount of $215,654 with a down payment paid in the amount of $37,000 on April 6, 2021 and ten monthly installments of $17,899. The Company received a refund on October 5, 2021 for the annual audit of the policy resulting in the refund being applied to the outstanding amount of $35,787. The policy renewed on February 3, 2022 and, in connection therewith, the Company issued a new note payable to the insurer in the amount of $242,591 with a down payment paid in the amount of $41,854 and payable in ten monthly installments of $20,074. At June 30, 2022 and December 31, 2021, the balance of Insurance Note 4 was $100,010 and zero, respectively.

Equipment Financing

The Company entered into an agreement on August 26, 2019 with an equipment financing company by issuing a $147,810 note secured by the equipment being financed, with an annual interest rate of 12.72% and payable in monthly installments of principal and interest totaling $4,963 through August 1, 2022. The Company entered into an additional agreement on May 22, 2020 with the same equipment financing company by issuing a $121,637 secured note, with an annual interest rate of 9.90% and payable in monthly installments of principal and interest totaling $3,919 through June 1, 2023. At June 30, 2022 and December 31, 2021, the balance of these notes was $54,373 and $103,186, respectively.

At June 30, 2022, future minimum lease payments due under the equipment financing is as follows:

Calendar year:	Amount
2022	33,441
2023	23,515
Total minimum equipment financing payments	$ 56,956
Less: interest	(2,583)
Total equipment financing at June 30, 2022	$ 54,373
Less: current portion of equipment financing	54,373
Long term portion of equipment financing	$ —

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

On July 26, 2021, the Company entered a new operating lease agreement for office and warehouse combination space of 40,000 square feet, with the lease commencing on November 1, 2021 and ending April 30, 2032. This new space will combine the Company's two separate work locations into one facility, which will allow for greater collaboration and also accommodate a larger anticipated workforce and manufacturing facility. On November 24, 2021, the lease was amended to commence on December 1, 2021 and end on May 31, 2032. The Company recognized a ROU asset and operating lease liability in the amount of $4,980,104 at lease commencement. Rent for the first eleven months of the term will be calculated based on 30,000 rentable square feet. The rent is subject to an annual escalation of 2.5%, beginning November 1, 2023. The Company made a security deposit payment in the amount of $600,000 on July 26, 2021. The right of use asset balance at June 30, 2022, net of amortization, was $4,767,219.

As of June 30, 2022, the office and warehouse lease is the Company's only lease with a term greater than twelve months. The office and warehouse lease has a remaining term of approximately 9.9 years and includes an option to extend for two renewal terms of five years each. The renewal options are not reasonably certain to be exercised, and therefore, they are not included when determining the lease term used to establish the right-of use asset and lease liability. The Company also has several short-term leases, primarily related to equipment. The Company made an accounting policy election to not recognize short-term leases with terms of twelve months or less on the balance sheet and instead recognize the lease payments in expense as incurred. The Company has also elected to account for real estate leases that contain both lease and non-lease components (such as common area maintenance) as a single lease component.

The following table shows supplemental information related to leases:

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Lease cost:		
Operating lease cost	$ 389,813	$ 145,856
Short-term lease cost	17,922	10,806
Other information:		
Operating cash outflow used for operating leases	185,000	151,568
Weighted average discount rate	9.0%	12.0%
Weighted average remaining lease term	9.9 years	0.3 years

As of June 30, 2022, future minimum lease payments due under operating leases are as follows:

	Amount
Calendar year:	
2022	$ 193,988
2023	696,869
2024	779,087
2025	798,556
2026	818,518
Thereafter	4,803,472
Total undiscounted future minimum lease payments	8,090,490
Less: Impact of discounting	(2,988,921)
Total present value of operating lease obligations	5,101,569
Current portion	(510,028)
Operating lease obligations, less current portion	$ 4,591,541

Executive Severance Agreement

Pursuant to a separation agreement with Gianni Arcaini, our former Chief Executive Officer and Chairman of the Board (the "Separation Agreement") , Mr. Arcaini's employment with the Company ended on September 1, 2020 ("Separation Date"). The Separation Agreement provides that he will receive separation payments over a 36-month period equal to his base salary plus $75,000 as well as certain limited health and life insurance benefits. The Separation Agreement also contains confidentiality, non-disparagement and non-solicitation covenants and a release of claims by Mr. Arcaini.

In accordance with the Separation Agreement, the Company will pay to Mr. Arcaini the total sum of $747,788. On March 1, 2021, the Company paid to Mr. Arcaini a lump-sum amount equal to the first six months of payments, or $124,631, owed to Mr. Arcaini and the Company will continue to pay him in semi-monthly installments for 30 months thereafter, as contemplated in Mr. Arcaini's Separation Agreement. The remaining balance of approximately $354,000 as of June 30, 2022 is included in accrued expenses in the accompanying unaudited consolidated balance sheet. In addition, the Company will pay one-half of Mr. Arcaini's current life insurance premiums for 36 months of approximately $1,200 per month and provide and pay for his health insurance for 36 months following the Separation Date of approximately $450 per month, which are also included in accrued expenses as described above.

NOTE 5 – STOCKHOLDERS' EQUITY

Common stock issued

On January 11, 2022, shareholders converted 710 and 1,790 shares of Series C Convertible Preferred stock collectively with a stated value of $2.5 million owned by two entities related to each other with a conversion price of $5.50 per common share resulting in the issuance of 129,091 and 325,455 shares of the Company's common stock.

On February 3, 2022, the Company closed an offering of 1,325,000 shares of common stock in the amount of $5,300,000 or $4 per share before certain underwriting fees and offering expenses with net proceeds of $4,779,000.

On February 21, 2022, the Company closed a "over-allotment" offering of 198,750 shares of common stock in the amount of $795,000 or $4 per share before certain underwriting fees and offering expenses with net proceeds of $739,350. Both this and the previous offering were "takedowns" from a previously filed "shelf" registration statement for the offer of up to $50,000,000 in the aggregate of common stock, Preferred Stock, Debt Securities, Warrants, Rights or Units from time to time in one or more offerings.

On March 31, 2022, the Company issued 7,198 shares of common stock for payment of board fees to four directors in the amount of $40,000 for services to the board which was expensed during the three months ended March 31, 2022.

On June 30, 2022, the Company issued 10,668 shares of common stock for payment of board fees to four directors in the amount of $40,000 for services to the board which was expensed during the three months ended June 30, 2022.

Series B Convertible Preferred Stock

The following summary of certain terms and provisions of our Series B Convertible Preferred Stock (the "Series B Convertible Preferred Stock") is subject to, and qualified in its entirety by reference to, the terms and provisions set forth in our certificate of designation of preferences, rights and limitations of Series B Convertible Preferred Stock (the "Series B Convertible Preferred Certificate of Designation") as previously filed. Subject to the limitations prescribed by our articles of incorporation, our board of directors is authorized to establish the number of shares constituting each series of preferred stock and to fix the designations, powers, preferences, and rights of the shares of each of those series and the qualifications, limitations and restrictions of each of those series, all without any further vote or action by our stockholders. Our board of directors has designated 15,000 of the 10,000,000 authorized shares of preferred stock as Series B Convertible Preferred Stock with a stated value of $1,000 per share. The shares of Series B Convertible Preferred Stock are validly issued, fully paid and non-assessable.

Each share of Series B Convertible Preferred Stock is convertible at any time at the holder's option into a number of shares of common stock equal to $1,000 divided by the conversion price of $7.00 per share. Notwithstanding the foregoing, we shall not effect any conversion of Series B Convertible Preferred Stock, with certain exceptions, to the extent that, after giving effect to an attempted conversion, the holder of shares of Series B Convertible Preferred Stock (together with such holder's affiliates, and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own a number of shares of our common stock in excess of 4.99% (or, at the election of the purchaser, 9.99%) of the shares of our common stock then outstanding after giving effect to such exercise. The Series B Certificate of Designation does not prohibit the Company from waiving this limitation. Upon any liquidation, dissolution or winding-up of Corporation, whether voluntary or involuntary (a "Liquidation"), the Holders shall be entitled to participate on an as-converted-to-common stock basis (without giving effect to the Beneficial Ownership Limitation) with holders of the common stock in any distribution of assets of the Corporation to the holders of the common stock. Effective November 24, 2017 (the "Effective Date"), the Company entered into a Securities Purchase Agreement and a Registration Rights Agreement which included the issuance of 2,830 shares of Series B Convertible Preferred Stock worth $2,830,000 (including the conversion of liabilities at a price of $1,000 per Class B Unit). As of June 30, 2022 and December 31, 2021, respectively, there are 851 and 851 shares of Series B Convertible Preferred Stock issued and outstanding.

__Series C Convertible Preferred Stock__

The Company's Board of Directors has designated 5,000 shares as the Series C Convertible Preferred Stock. Each share of the Series C Convertible Preferred Stock has a stated value of $1,000. The holders of the Series C Convertible Preferred Stock, the holders of the common stock and the holders of any other class or series of shares entitled to vote with the common stock shall vote together as one class on all matters submitted to a vote of shareholders of the Company. Each share of Series C Convertible Preferred Stock has 172 votes (subject to adjustment); provided that in no event may a holder of Series C Convertible Preferred Stock be entitled to vote a number of shares in excess of such holder's Beneficial Ownership Limitation (as defined in the Certificate of Designation and as described below). Each share of Series C Convertible Preferred Stock is convertible, at any time and from time to time, at the option of the holder, into that number of shares of common stock (subject to the Beneficial Ownership Limitation) determined by dividing the stated value of such share ($1,000) by the conversion price, which is $5.50 (subject to adjustment). The Company shall not effect any conversion of the Series C Convertible Preferred Stock, and a holder shall not have the right to convert any portion of the Series C Convertible Preferred Stock, to the extent that after giving effect to the conversion sought by the holder such holder (together with such holder's Attribution Parties (as defined in the Certificate of Designation)) would beneficially own more than 4.99% (or upon election by a holder, 19.99%) of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock issuable upon such conversion (the "Beneficial Ownership Limitation"). All holders of the Series C Preferred Stock have elected the 19.99% Beneficial Ownership Limitation.

On February 26, 2021, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain existing investors in the Company (the "Purchasers"). Pursuant to the Purchase Agreement, the Purchasers purchased 4,500 shares of a newly authorized Series C Convertible Preferred Stock (the "Series C Convertible Preferred Stock"), and the Company received proceeds of $4,500,000. The Purchase Agreement contains customary representations, warranties, agreements and indemnification rights and obligations of the parties. In January 2022, the 2,500 outstanding shares of Series C Convertible Preferred Stock were converted into 454,546 shares of common stock. As of June 30, 2022 and December 2021, respectively, there were zero and 2,500 shares of Series C Convertible Preferred Stock issued and outstanding.

In connection with the Purchase Agreement, the Company also entered into a Registration Rights Agreement with the Purchasers. Pursuant to the Registration Rights Agreement, the Company filed with the SEC a registration statement covering the resale by the Purchasers of the shares of common stock into which the shares of Series C Convertible Preferred Stock are convertible. The Registration Rights Agreement contains customary representations, warranties, agreements and indemnification rights and obligations of the parties.

__Stock-Based Compensation__

Stock-based compensation expense recognized under ASC 718-10 for the six months ended June 30, 2022 and 2021, was $438,809 and $153,163 respectively, for stock options granted to employees and directors. This expense is included in selling, general and administrative expenses in the unaudited consolidated statements of operations. Stock-based compensation expense recognized during the period is based on the grant-date fair value of the portion of share-based payment awards that are ultimately expected to vest during the period. At June 30, 2022, the total compensation cost for stock options not yet recognized was $961,405. This cost will be recognized over the remaining vesting term of the options ranging from six months to two- and one-half years.

On May 12, 2021, the Board adopted, with shareholder approval, the 2021 Equity Incentive Plan (the "2021 Plan") providing for the issuance of up to 1,000,000 shares of our common stock. The purpose of the 2021 Plan is to assist the Company in attracting and retaining key employees, directors and consultants and to provide incentives to such individuals to align their interests with those of our shareholders.

On January 1, 2022, the Company awarded certain senior management and key employees non-qualified stock options under the 2021 Plan. Specifically, a total of 665,000 options were awarded by the Company's Compensation Committee and approved by the Board, with a strike price of $6.41 per share, a five- year term and vesting equally over a three-year period. The options serve as a retention tool and contain key provisions that the holder must remain in good standing with the Company. The options were valued on the grant date at $1,563,708 using a Black-Scholes model with the following assumptions: (1) expected term of 3.5 years using the simplified method, (2) expected volatility rate of 72% based on historical volatility, (3) dividend yield of zero, and (4) a discount rate of 0.97%.

As of June 30, 2022, and December 31, 2021, options to purchase a total of 986,266 (net of forfeitures discussed below) shares of common stock and 431,266 shares of common stock were outstanding, respectively and at June 30, 2022, 344,599 options were exercisable. Of the total pre-forfeiture options issued, 271,266 and 271,266 options were outstanding under the 2016 Plan, 665,000 and no options were outstanding under the 2021 Plan and a further 160,000 and 160,000 non-plan options to purchase common stock were outstanding as of June 30, 2022 and December 31, 2021, respectively. The non-plan options were granted to four executives as hiring incentives, including the Company's CEO in the fourth quarter of 2020.

During the second quarter of 2022, 110,000 options were forfeited that had previously been awarded as a part of the 2021 Equity Incentive Plan. The forfeitures were the result of three employees who had previously been awarded those options with a 3-year vesting requirement resigning from the Company without being vested either in part or in whole. The forfeitures resulted in a credit to payroll expense of $38,969 during the quarter.

For the six months ended June 30, 2022, the Company has recorded an option expense for all options outstanding in the amount of $438,809.

Warrants

No new warrants were issued during the first half of 2022. At June 30, 2022 and December 31, 2021, warrants outstanding were 1,376,466 and 1,376,466, respectively.

NOTE 6 - REVENUE

Revenue Recognition and Contract Accounting

The Company generates revenue from four sources: (1) Technology Systems; (2) AI Technology which is included in the consolidated statements of operations line-item Technology systems; (3) Technical Support; and (4) Consulting Services which is included in the unaudited consolidated statements of operations line-item Services and consulting.

Contract assets and contract liabilities on uncompleted contracts for revenues recognized over time are as follow:

Contract Assets

Contract assets on uncompleted contracts represent revenues recognized in excess of billings and/or cash received on uncompleted contracts accounted for under the cost-to-cost input method, which recognizes revenue based on the ratio of cost incurred to total estimated costs.

At June 30, 2022 and December 31, 2021, contract assets on uncompleted contracts consisted of the following:

	June 30, 2022	December 31, 2021
Cumulative revenues recognized	$ 2,018,047	$ 5,266,930
Less: Billings or cash received	(1,315,675)	(5,263,481)
Contract assets	$ 702,372	$ 3,449

Contract Liabilities

Contract liabilities, on uncompleted contracts represent billings and/or cash received that exceed accumulated revenues recognized on uncompleted contracts accounted for under the cost-to-cost input method, which recognizes revenues based on the ratio of the cost incurred to total estimated costs.

Contract liabilities, services and consulting revenues represent billings or cash received in excess of revenue recognizable on service agreements that are not accounted for under the cost to cost method.

At June 30, 2022 and December 31, 2021, contract liabilities on uncompleted contracts and contract liabilities on services and consulting consisted of the following:

	June 30, 2022	December 31, 2021
Billings and/or cash receipts on uncompleted contracts	$ 6,340,948	$ 4,273,726
Less: Cumulative revenues recognized	(2,431,095)	(3,041,088)
Contract liabilities, technologies systems	3,909,853	1,232,638
Contract liabilities, services and consulting	1,105,597	596,673
Total contract liabilities	$ 5,015,450	$ 1,829,311

The Company expects to recognize all contract liabilities within 12 months from the consolidated balance sheet date.

Disaggregation of Revenue

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

Qualitative:

1. We have four distinct revenue sources:

    a. Technology Systems (Turnkey, engineered projects);

    b. AI Technology (Associated maintenance and support services);

    c. Technical Support (Licensing and professional services related to auditing of data center assets); and

    d. Consulting Services (Predetermined algorithms to provide important operating information to the users of our systems).

2. We currently operate in North America including the USA, Mexico and Canada.

3. Our customers include rail transportation, commercial, government, banking and IT suppliers.

4. Our contracts are fixed price and fall into two duration types:

    a. Turnkey engineered projects and professional service contracts that are less than one year in duration and are typically two to three months in length; and

    b. Maintenance and support contracts ranging from one to five years in length.

5. Transfer of goods and services are over time.

6. Goods delivered at point in time.

Quantitative:

For the Three Months Ended June 30, 2022

Segments	Rail	Commercial	Government	Artificial Intelligence	Total
Primary Geographical Markets					
North America	$ 3,315,171	$ 26,697	$ 38,737	$ 236,537	$ 3,617,142
Major Goods and Service Lines					
Turnkey Projects	$ 2,675,426	$ —	$ 18,517	$ —	$ 2,693,943
Maintenance and Support	639,745	26,697	20,220	150,435	837,097
Algorithms	—	—	—	86,102	86,102
	$ 3,315,171	$ 26,697	$ 38,737	$ 236,537	$ 3,617,142
Timing of Revenue Recognition					
Goods transferred over time	$ 2,675,426	$ —	$ 18,517	$ —	$ 2,693,943
Goods delivered at point in time	—	—	—	86,102	86,102
Services transferred over time	639,745	26,697	20,220	150,435	837,097
	$ 3,315,171	$ 26,697	$ 38,737	$ 236,537	$ 3,617,142

For the Three Months Ended June 30, 2021

Segments	Rail	Commercial	Government	Banking	IT Suppliers	Artificial Intelligence	Total
Primary Geographical Markets							
North America	$ 466,628	$ 57,600	$ 116,727	$ 2,932	$ 795	$ 3,986	$ 648,668
Major Goods and Service Lines							
Turnkey Projects	$ 3,895	$ —	$ 96,506	$ —	$ —	$ —	$ 100,401
Maintenance and Support	462,733	57,600	20,221	2,932	—	3,986	547,472
Software License	—	—	—	—	795	—	795
	$ 466,628	$ 57,600	$ 116,727	$ 2,932	$ 795	$ 3,986	$ 648,668
Timing of Revenue Recognition							
Goods transferred over time	$ 3,895	$ —	$ 96,506	$ —	$ —	$ —	$ 100,401
Services transferred over time	462,733	57,600	20,221	2,932	795	3,986	548,267
	$ 466,628	$ 57,600	$ 116,727	$ 2,932	$ 795	$ 3,986	$ 648,668

For the Six Months Ended June 30, 2022

Segments	Rail	Commercial	Government	Artificial Intelligence	Total
Primary Geographical Markets					
North America	$ 4,322,444	$ 43,997	$ 190,879	$ 499,138	$ 5,056,458
Major Goods and Service Lines					
Turnkey Projects	$ 3,196,081	$ (498)	$ 150,438	$ —	$ 3,346,021
Maintenance and Support	1,126,363	44,495	40,441	281,847	1,493,146
Algorithms	—	—	—	217,291	217,291
	$ 4,322,444	$ 43,997	$ 190,879	$ 499,138	$ 5,056,458
Timing of Revenue Recognition					
Goods transferred over time	$ 3,196,081	$ (498)	$ 150,438	$ —	$ 3,346,021
Goods delivered at point in time	—	—	—	217,291	217,291
Services transferred over time	1,126,363	44,495	40,441	281,847	1,493,146
	$ 4,322,444	$ 43,997	$ 190,879	$ 499,138	$ 5,056,458

For the Six Months Ended June 30, 2021

Segments	Rail	Commercial	Government	Banking	IT Suppliers	Artificial Intelligence	Total
Primary Geographical Markets							
North America	$ 2,224,074	$ 113,442	$ 145,287	$ 25,761	$ 133,772	$ 161,086	$ 2,803,422
Major Goods and Service Lines							
Turnkey Projects	$ 1,327,217	$ —	$ 104,845	$ 1,537	$ —	$ —	$ 1,433,599
Maintenance and Support	896,857	113,442	40,442	24,224	—	3,986	1,078,951
Data Center Auditing Services	—	—	—	—	130,592	—	130,592
Software License	—	—	—	—	3,180	—	3,180
Algorithms	—	—	—	—	—	157,100	157,100
	$ 2,224,074	$ 113,442	$ 145,287	$ 25,761	$ 133,772	$ 161,086	$ 2,803,422
Timing of Revenue Recognition							
Goods transferred over time	$ 1,327,217	$ —	$ 104,845	$ 1,537	$ 130,592	$ 157,100	1,721,291
Goods delivered point in time	—	—	—	—	—		
Services transferred over time	896,857	113,442	40,442	24,224	3,180	3,986	1,082,131
	$ 2,224,074	$ 113,442	$ 145,287	$ 25,761	$ 133,772	$ 161,086	$ 2,803,422

NOTE 7 – DEFINED CONTRIBUTION PLAN

The Company has a 401(k)-retirement savings plan (the “401(k) Plan”) covering all eligible employees. The 401(k) Plan allows employees to defer a portion of their annual compensation, and the Company may match a portion of the employees’ contributions generally after the first six months of service. During the six months ended June 30, 2022, the Company matched 100% of the first 4% of eligible employee compensation that was contributed to the 401(k) Plan. For the six months ended June 30, 2022, the Company recognized expense for matching cash contributions to the 401(k) Plan totaling $64,909.

NOTE 8 – RELATED PARTY TRANSACTIONS

On August 1, 2012, the Company entered into an independent contractor master services agreement (the “Services Agreement”) with Luceon, LLC, a Florida limited liability company, owned by our former Chief Technology Officer, David Ponevac. The Services Agreement provided that Luceon would provide support services including management, coordination or software development services and related services to duos. In January 2019, additional services were contracted with Luceon for TrueVue360™ primarily for software development through the provision of seven additional full-time contractors located in Slovakia at a cost of $16,250 for January initially, rising to $25,583 after fully staffed, per month starting February 2019. This was in addition to the existing contract of $7,480 per month for duos for four full-time contractors which increased to $8,231 per month in June of 2019. During 2020 efforts in reducing cost, Luceon reduced its staff for the TrueVue360 software development team from a staff of seven to three full-time employees at a cost of $11,666 per month starting June 1, 2020. On May 14, 2021, the Company formally ended its relationship with Luceon in concert with the resignation of our Chief Technology Officer and as such there is no longer a related party relationship. As of January 1, 2021, the Company no longer records activities in TrueVue360 and has combined billings for a total of $20,986 per month. For the six months ended June 30, 2022 and 2021, the total amount expensed is zero and $93,422, respectively. The Company had no open accounts payable with Luceon at June 30, 2022.

NOTE 9 – SUBSEQUENT EVENTS

On July 1, 2022, the Company awarded an employee 20,000 non-qualified stock options which have a 5-year term and a 2.5-year vesting period with a strike price of $6.41.

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

This quarterly report on Form 10-Q and other reports filed by Duos Technologies Group, Inc. (the "Company"), and its operating subsidiaries, Duos Technologies, Inc. ("Duos") and TrueVue360, Inc ("TrueVue360", Duos Technologies Group, Inc. and Duos, collectively the "Company" "we", "our", and "us") from time to time with the Securities and Exchange Commission (the "SEC") contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company's management as well as estimates and assumptions made by Company's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the filings, the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan," "aim," "project," "target," "will," "may," "should," "forecast" or the negative of these terms and similar expressions as they relate to the Company or the Company's management identify forward-looking statements. Such statements typically address the Company's expected future business and financial performance and are subject to risks, uncertainties, assumptions, and other factors, including the risks contained in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, relating to the Company's industry, the Company's operations and results of operations, and any businesses that the Company may acquire. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ materially from those anticipated, believed, estimated, expected, intended, or planned.

These factors include, but are not limited to, risks related 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 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.

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

Overview

Duos Technologies Group, Inc. (the "Company") was incorporated in Florida on May 31, 1994 under the original name of Information Systems Associates, Inc. Initially, our business operations consisted of consulting services for asset management of large corporate data centers and the development and licensing of information technology ("IT") asset management software. In late 2014, the Company entered negotiations with Duos Technologies, Inc. ("Duos"), for the purposes of executing a reverse triangular merger. This transaction was completed on April 1, 2015, whereby Duos became a wholly owned subsidiary of the Company. Duos was incorporated under the laws of Florida on November 30, 1990 for design, development and deployment of proprietary technology applications and turn-key engineered systems. The Company, based in Jacksonville, Florida, has a current staff of 78 people of which 70 are full time and is a technology and software applications company with a strong portfolio of intellectual property. The Company's core competencies, including advanced intelligent technologies, are delivered through its proprietary integrated enterprise command and control platform, Centraco®.

The Company has developed the Railcar Inspection Portal ("RIP") which provides both freight and transit railroad customers and select government agencies the ability to conduct fully remote railcar inspections of trains while they are in transit. The system, which incorporates a variety of sophisticated optical technologies, illumination and other sensors, scans each passing railcar to create a high-resolution image set from a variety of angles including the undercarriage. These images are then processed through various methods of artificial intelligence algorithms to identify specific defects and/or areas of interest on each railcar. This is all accomplished within seconds of a railcar passing through our portal. We believe this solution has the potential to transform the railroad industry by increasing safety, improving efficiency and reducing costs. The Company has deployed this system with several Class 1 railroad customers and anticipates an increased demand from transit and other railroad customers along with selected government agencies that operate and/or manage rail traffic in the future. Government agencies can conduct digital inspections combined with the incorporated artificial intelligence ("AI") to improve rail traffic flow across borders which also directly benefits the Class 1 railroads through increasing their velocity.

The Company has also developed the Automated Logistics Information System ("ALIS") which automates gatehouse operations where transport trucks enter and exit large logistics and intermodal facilities. This solution also incorporates sensors and data points as necessary for each operation and directly interconnects with backend logistics databases and processes to streamline operations, and significantly improve operations and security and significantly improves the vehicle throughput on each lane on which the technology is deployed.

The Company has built a portfolio of IP and patented solutions that creates "actionable intelligence" using two core native platforms called Centraco® and Praesidium™. All solutions provided include a variant of both applications. Centraco is designed primarily as the user interface for all our systems as well as the backend connection to third-party applications and databases through both Application Programming Interfaces (APIs) and Software Development Kits (SDKs). This interface is browser based and hosted within each one of our systems and solutions. It is typically also customized for each unique customer and application. Praesidium typically resides as middleware in our systems and manages the various image capture devices and some sensors for input into the Centraco software.

The Company also developed a proprietary Artificial Intelligence software platform, Truevue360™ with the objective of focusing the Company's advanced intelligent technologies in the areas of AI, deep machine learning and advanced multi-layered algorithms to further support our solutions.

The Company previously provided professional and consulting services for large data centers and had developed a system for the automation of asset information marketed as DcVue™. The Company deployed its DcVue software at one beta site. This software was used by Duos' consulting auditing teams. DcVue was based upon the Company's OSPI patent which was awarded in 2010. The Company offered DcVue available for license to our customers as a licensed software product. The Company ceased offering this product in 2021.

The Company's strategy is to deliver operational and technical excellence to our customers; expand our RIP and ALIS solutions into current and new customers focused in the Rail, Logistics and U.S. Government Sectors; offer both CAPEX and OPEX pricing models to customers that increases recurring revenue, grows backlog and improves profitability; responsibly grow the business both organically and through selective acquisitions; and promote a performance-based work force where employees enjoy their work and are incentivized to excel and remain with the Company.

Prospects and Outlook

The Company's focus is to improve operational and technical execution which, we believe, will in turn enable the commercial side of the business to expand RIP and ALIS delivery into existing customers and to expand and diversify our current customer base. Even though COVID-19 is expected to still be an issue during the remainder of 2022, the Company's primary customers have indicated readiness to order more equipment and services should the Company execute as expected on key deliverables.

Additionally, the Company is making engineering and software upgrades to the RIP to meet anticipated Federal Railroad Association (FRA) and Association of American Railroad (AAR) standards. Similar upgrades are also being developed to improve the ALIS system. These upgrades will continue to be released throughout 2022 and are expected to drive revenue growth this year and beyond.

The Company is expanding its focus in the rail industry to encompass passenger transportation and was awarded a large, multi-year contract with a national rail carrier. The Company anticipates that it will manufacture two RIP solutions in 2022 and, along with a long-term services agreement completing delivery during the second quarter of 2023.

Although the Company's prospects and outlook are anticipated to be favorable for the remainder of 2022, investing in our securities involves risk and careful consideration should be made before deciding to purchase our securities. There are many risks that affect our business and results of operations, some of which are beyond our control and unexpected macro events can have a severe impact on the business. Please see the risk factors identified in "Item 1A – Risk Factors" of our Annual Report on Form 10-K filed with the SEC on March 31, 2022.

Results of Operations

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

Comparison for the Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

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

	For the Three Months Ended June 30,	
	2022	**2021**
Revenues	$ 3,617,142	$ 648,668
Cost of revenues	2,334,528	918,427
Gross margin	1,282,614	(269,759)
Operating expenses	2,677,089	2,678,708
Loss from operations	(1,394,475)	(2,948,468)
Other income (expense)	51,803	(4,412)
Net loss	$ (1,342,672)	$ (2,952,880)

Revenues

	For the Three Months Ended June 30,		
	2022	**2021**	**% Change**
Revenues:			
Technology systems	$ 2,780,045	$ 100,401	2669%
Services and consulting	837,097	548,267	53%
Total revenues	$ 3,617,142	$ 648,668	458%

The substantial increase in overall revenues for the quarter ended June 30, 2022 compared to the quarter ended June 30, 2021, is primarily related to the production and start of installation of new and upgraded Railcar Inspection Portals (“RIPs”) which are recorded in the technology systems portion of our business. We expect this trend to continue for the rest of 2022 and into 2023 although supply chain issues continue to extend deadlines for shipment of key components used in our technology systems. While certain orders were delayed from 2021 into 2022, we remain encouraged by the breadth and scope of recent bids in which we have participated. Management cautions that because of the delays in anticipated start dates, certain installations may produce revenues towards the end of 2022, some of which may ultimately be recorded in 2023. Additionally, although the industries in which we operate are showing early signs of recovery from the delays as a result of the COVID-19 pandemic, other macro-economic effects are anticipated to impact us, including inflation and the aforementioned supply chain issues. The effect of this will be to push some revenue recognition later in the year or into 2023. The effects of inflation are not quantifiable at the current time but are now evident in increased costs for materials and labor. These effects may result in higher costs for project implementation that cannot be wholly or even partially passed on to our customers and thus resulting in delaying our progress towards profitability.

We believe the Company’s capital structure allows us to weather the unexpected delays without significant operational impact and enables us to pursue large projects requiring the ability to deploy major resources. It should be noted that the Company increased its working capital in early 2022 to account for an increase in pre-contract procurement activities to avoid a slowdown in revenues caused by delays in receiving certain components. The Company continues to review operations during 2022 and adjust staffing in concert with the business demands with a particular focus on Artificial Intelligence research, development and production. Although the Company implemented a “rapid development” initiative in early 2021, which was intended to enable the Company to respond to market driven demand more quickly, this effort has been somewhat negated by ongoing supply chain issues. This effort was expected to shorten delivery times on major projects and result in significant revenue growth however, the previously discussed supply chain issues continue to slow the anticipated benefits at this time. The Company is monitoring the situation and continues to procure materials ahead of formal contract award.

The growth of the services portion of revenues are driven by the successful completion of projects and represent services and support for those installations. The Company expects growth with new revenue from existing customers, including services revenue as the result of new maintenance contracts being established on installations coming on-line during 2022 and into 2023. The Company also anticipates renewals of existing contracts and a shift to the next generation of technology systems which are currently being installed.

Cost of Revenues

	For the Three Months Ended Jun 30,		
	2022	2021	% Change
Cost of revenues:			
Technology systems	$ 1,974,302	$ 506,128	290%
Services and consulting	360,226	412,299	-13%
Total cost of revenues	$ 2,334,528	$ 918,427	154%

Cost of revenues largely comprises equipment and labor necessary to support the implementation of new systems and support and maintenance of existing systems.

Cost of revenues on technology systems increased during the three months ended June 30, 2022 compared to the equivalent period in 2021, which is consistent with the increase in revenues albeit at a slower overall rate. The higher level of cost was mainly due to higher costs of materials due to increased production levels and also to supply chain disruptions and inflation. While we expect that macro-economic factors will continue to drive prices, the Company expects its structural realignment to eventually aid in lowering costs as a percentage of the overall system price going forward although inflation may impede this effort. As previously noted, the Company’s organization and related cost structure was realigned to provide the capability to manufacture, install and support multiple production systems simultaneously. In accordance with this shift in structure, certain staff were re-assigned or replaced, and new staff added in key areas, particularly engineering, software development and AI.

In conjunction with these organizational changes, increased costs are now being recognized against project and support revenues. While there is a continued focus on construction costs and savings through efficiency, the Company elected to expand its key employees in 2021 and early 2022 in anticipation of expected sales growth in technology systems and services which is now being realized. We also expect these changes to have a positive long-term impact as we believe they will enable the Company to deliver a higher number of systems in a given period, with a shorter period of implementation and with better quality and reliability, as operations become standardized in anticipation of expected higher demand for systems, particularly in the rail industry.

Cost of revenues on services and consulting decreased in the three months ended June 30, 2022 compared to the prior year period against an increase in revenues from services and consulting for the current year period as compared to the prior year period, a positive development which we anticipate continuing as our recurring services revenue grow and the associated costs remain relatively flat. When comparing the second quarter of 2022 and the equivalent period in 2021, an overall positive trend on service and consulting revenue is expected to continue as the Company anticipates that an increasing amount of the revenue will be derived from recurring revenue. Costs of revenues on services and consulting are expected to increase in future years but at a slower rate than revenue growth. The Company focused on streamlining support operations in 2021, and despite the additional resources allocated to these activities in anticipation of higher recurring revenue in 2022 and beyond, we expect higher gross margins as the Company grows.

As discussed previously, the impact of inflation may negatively affect the costs of revenues such that we may experience higher costs for materials and labor, including higher employee and sub-contractor costs that cannot be passed along in all cases. Management is continuing to monitor this situation and expects to take actions as the full impact of these cost increases is understood. This may take the form of higher prices and continued evaluation of costs to attempt to reduce the overall costs to offset the additional expenses, although this is not assured.

Gross Margin

	For the Three Months Ended Jun 30,		
	2022	**2021**	**% Change**
Revenues	$ 3,617,142	$ 648,668	458%
Cost of revenues	2,334,528	918,427	154%
Gross margin	$ 1,282,614	$ (269,759)	575%

As previously discussed, the Company has revamped its operations to support an anticipated increase in the number of new systems going forward. The result in additional cost of revenues was covered by a greater increase in revenues during the second quarter of 2022. The main reason for the increased costs is the higher level of production costs for materials as well as supply chain disruptions and inflation. We anticipate further improvements in the overall gross margin for the full year of 2022. Certain macro-economic factors, which are driving increased costs for materials and labor, may result in higher costs for project implementation that cannot be wholly or even partially passed on to our customers, which may result in delaying our progress towards profitability into 2023.

Operating Expenses

	For the Three Months Ended June 30,		
	2022	**2021**	**% Change**
Operating expenses:			
Sales and marketing	$ 375,986	$ 351,251	7%
Research and development	530,339	468,561	13%
General and administration	1,770,764	1,858,896	-5%
Total operating expenses	$ 2,677,089	$ 2,678,708	0%

Overall operating expenses during the three months ended June 30, 2022 remained flat compared to the equivalent period in 2021. The slight increases in cost for sales and marketing and research and development was offset by the decrease in general and administration costs during the same period for 2021. Overall, the Company continues to focus on stabilizing operating expenses while meeting the increase needs of our customers.

Loss from Operations

The loss from operations for the three months ended June 30, 2022 and 2021 were $1,394,475 and $2,948,468, respectively. The decrease in losses from operations was primarily the result of higher revenues recorded in the quarter resulting from increases in both our technology systems and services and consulting, slower growth in costs of those revenues and flat operating expenses.

Other Income/Expense

Other income for the three months ended June 30, 2022 was $51,803 compared to other expense of $4,412 in the comparative period of 2021.

Net Loss

The net loss for the three months ended June 30, 2022 and 2021 was $1,342,672 and $2,952,880, respectively. The 55% decrease in net loss was mostly attributed to the increase in revenues as described above along with slower growing expenses. Net loss per common share was $0.22 and $0.83 for the three months ended June 30, 2022 and 2021, respectively.

Comparison for the Six Months Ended June 30, 2022 Compared to Six Months Ended Jun 30, 2021

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

	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Revenues	$ 5,056,458	$ 2,803,422
Cost of revenues	3,551,778	2,570,209
Gross margin	1,504,680	233,213
Operating expenses	5,540,773	5,003,981
Loss from operations	(4,036,093)	(4,770,768)
Other income (expense)	48,805	1,411,865
Net loss	$ (3,987,288)	$ (3,358,903)

Revenues

	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021	% Change
Revenues:			
Technology systems	$ 3,563,314	$ 1,590,699	124%
Services and consulting	1,493,144	1,212,723	23%
Total revenues	$ 5,056,458	$ 2,803,422	80%

The increase in overall revenues for the six months ended June 30, 2022 is primarily related to the previously discussed start of production and new installations in the technology systems portion of our business and continuing increases in our services and consulting revenues.

We believe the Company's capital structure allows us to weather the unexpected delays without significant operational impact and enables us to pursue large projects requiring the ability to deploy major resources. As previously discussed, the Company increased its working capital in early 2022 to account for an increase in pre-contract procurement activities to avoid a slowdown in revenues caused by delays in receiving certain components.

The services portion of revenues are driven by the successful completion of projects and represent services and support for those installations. The Company expects growth with new revenue from existing customers, including services revenue as the result of new maintenance contracts being established on installations coming on-line during 2022. The Company also anticipates renewals of existing contracts and a shift to the next generation of technology systems which are currently being installed.

Cost of Revenues

	For the Six Months Ended June 30,		
	2022	2021	% Change
Cost of revenues:			
Technology systems	$ 2,839,790	$ 1,799,738	58%
Services and consulting	711,988	770,471	-8%
Total cost of revenues	$ 3,551,778	$ 2,570,209	38%

Cost of revenues largely comprises equipment, labor and overhead necessary to support the implementation of new systems and support and maintenance of existing systems.

Cost of revenues on technology systems increased during the six months ended June 30, 2022 compared to the equivalent period in 2021, which is not only consistent with the increase in revenues but at a slower rate during this period than the increase in revenues partially due to timing differences. The higher level of cost was mainly due to higher costs related to higher revenues, but supply chain disruptions and inflation also continue to have an impact. Additional work previously necessary on certain of the Company's installations is in the process of completion, some of which will be paid for by the clients as a result of damage done to certain systems. While we expect that macro-economic factors will continue to drive prices, the Company expects its structural realignment to aid in lowering costs as a percentage of the overall system price going forward. As previously noted, the Company's organization and related cost structure was realigned to provide the capability to manufacture, install and support multiple production systems simultaneously. In accordance with this shift in structure, certain staff were re-assigned or replaced, and new staff added in key areas, particularly engineering, software development and AI.

In conjunction with these organizational changes, increased costs are now being recognized against project and support revenues. While there is a continued focus on construction costs and savings through efficiency, the Company has elected to expand its key employees in 2021 and early 2022 in anticipation of expected sales growth in technology systems and services. The initial negative impact on the gross margin during previous periods was expected to be a short-term impact, and we believe will be offset by anticipated increases in revenue now and throughout 2022. We also expect these changes to have a positive long-term impact as we believe they will enable the Company to deliver a higher number of systems in a given period, with a shorter period of implementation and with better quality and reliability, as operations become standardized in anticipation of expected higher demand for systems, particularly in the rail industry.

Cost of revenues on services and consulting decreased in the six months ended June 30, 2022 compared to the prior year period in contrast to the increase in revenues from services and consulting for the current year period as compared to the prior year period. This overall positive trend on service and consulting revenue is expected to continue as the Company continues to drive more recurring revenue. Costs of revenues on services and consulting are expected to increase in future periods but at a slower rate than revenue growth. The Company focused on streamlining support operations in 2021, and despite the additional resources allocated to these activities in anticipation of higher recurring revenue in 2022 and beyond, we expect higher gross margins as the Company grows.

As discussed previously, the impact of inflation may negatively affect the costs of revenues such that we may experience higher costs for materials and labor, including higher employee and sub-contractor costs that cannot be passed along in all cases. Management is continuing to monitor this situation and expects to take actions as the full impact of these cost increases is understood. This may take the form of higher prices and continued evaluation of costs to attempt to reduce the overall costs to offset the additional expenses, although this is not assured.

Gross Margin

	For the Six Months Ended June 30,		
	2022	2021	% Change
Revenues	$ 5,056,458	$ 2,803,422	80%
Cost of revenues	3,551,778	2,570,209	38%
Gross margin	$ 1,504,680	$ 233,213	545%

As previously discussed, the Company has revamped its operations to support an anticipated increase in the number of new systems going forward. The resultant additional cost of revenues was covered by a greater increase in revenues during the first half of 2022. The main reason for the continuing high level of cost is higher costs of materials based on more production of systems as well as supply chain disruptions and inflation. We continue to anticipate continued improvement in the overall gross margin for the full year of 2022, with much of the improvement expected to occur in the second half of the year. Certain macro-economic factors, which are driving increased costs for materials and labor, may result in higher costs for project implementation that cannot be wholly or even partially passed on to our customers and which may result in delaying our progress towards profitability into 2023.

Operating Expenses

	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021	% Change
Operating expenses:			
Sales and marketing	$ 659,880	$ 663,053	0%
Research and development	967,056	876,656	10%
General and administration	3,913,837	3,464,272	13%
Total operating expenses	$ 5,540,773	$ 5,003,981	11%

Overall operating expenses during the six months ended June 30, 2022 increased by 11% compared to the equivalent period in 2021. While sales and marketing remained flat, research and development costs and general and administration costs increased by 10% and 13% respectively although some of the increased Administration costs were related to non-cash compensation for certain staff members. The overall increase in operating expense is primarily related to the growing business and the effects of inflation on salaries and general overhead. At the current time, we continue to expect overall costs to grow due to macro-economic factors in addition to organic growth costs related to the business. Where possible, the Company continues to focus on stabilizing operating expenses while meeting the increase needs of our customers.

Loss from Operations

The losses from operations for the six months ended June 30, 2022 and 2021 were $4,036,093 and $4,770,768, respectively. The decrease in losses from operations was primarily the result of higher revenues recorded in the period as a consequence of the start of new projects and receipt of materials for production. A positive trend was the higher revenue recorded without a corresponding greater relative cost of sales even with higher costs of materials resulting from supply chain disruptions and inflation.

Other Income/Expense

Other expense for the six months ended June 30, 2022 was $48,805 compared to other income of $1,411,865 in the comparative period of 2021. The change is primarily due to PPP loan forgiveness recorded in the first quarter of 2021.

Net Loss

The net loss for the six months ended June 30, 2022 and 2021 was $3,987,288 and $3,358,903, respectively. The increase in net loss was mostly attributed to the higher costs in 2021 being offset by the PPP loan forgiveness recorded in the first quarter of 2021 as other income. Net loss per common share was $0.70 and $0.95 for the six months ended June 30, 2022 and 2021, respectively.

Liquidity and Capital Resources

As of June 30, 2022, the Company has a working capital surplus of $1,221,567 and a net loss of $3,987,288 compared to a negative working capital of $651,381 and a net loss of $6,008,901at December 31, 2021.

Cash Flows

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

	June 30, 2022	June 30, 2021
Net cash provided (used) in operating activities	$ 287,784	$ (3,218,903)
Net cash used in investing activities	(169,209)	(191,927)
Net cash provided by financing activities	5,256,134	4,264,675
Net increase in cash	$ 5,374,709	$ 853,845

Net cash provided by operating activities for the six months ended June 30, 2022 was $287,784 and net cash used during the same period of 2021 was $3,218,903. The increase in net cash provided in operations for the six months ended June 30, 2022 was the result of cash inflows from new projects offset by cash outflows to procure necessary materials and overall sales, general and administrative expenses. In addition, there are several changes in assets and liabilities compared to the previous period that decreased the use of cash in operations, notably the change in accounts receivable due to the timing of project invoicing milestones and cash receipts.

Net cash used in investing activities for the six months ended June 30, 2022 and 2021 was $169,209 and $191,927, respectively, representing a decrease in the purchase of various fixed assets for computer equipment and product development.

Net cash provided by financing activities for the six months ended June 30, 2022 and 2021 was $5,256,134 and $4,264,675, respectively. Cash flows provided by financing activities during the six-month period in 2022 were primarily attributable to net proceeds of approximately $5,500,000 from the issuance of common stock. Cash flows from financing activities during the six-month period in 2021 were primarily attributable to the issuance of Series C Convertible Preferred Stock for $4,500,000.

During 2022, we funded our operations through the sale of our equity (or equity linked) securities, and through revenues generated and cash received from ongoing project execution, services, and associated maintenance revenues. As of August 9, 2022, we have cash on hand of approximately $3,600,000. We have approximately $165,500 in monthly lease and other mandatory payments, not including payroll and ordinary expenses which are due monthly.

On a long-term basis, our liquidity is dependent on continuation and expansion of operations and receipt of revenues. We believe our current capital and revenues are sufficient to fund such expansion and our operations over the next twelve months, although we are dependent on timely payments by our customers for projects and work in process. However, we expect such timely payments to continue. Material cash requirements will be satisfied within the normal course of business including substantial upfront payments from our customers prior to starting projects. In some limited cases, the Company may elect to purchase materials and supplies in advance of contract award but where there is a high probability of that award.

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

Liquidity

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

As reflected in the accompanying unaudited consolidated financial statements, the Company had a net loss of $3,987,288 for the six months ended June 30, 2022. During the same period, net cash provided in operating activities was $287,784. The working capital surplus and accumulated deficit as of June 30, 2022 were $1,221,567 and $49,484,339 respectively. In previous financial reports, the Company had raised substantial doubt about continuing as a going concern. This was principally due to a lack of working capital prior to an underwritten offering receiving net proceeds of approximately $5,500,000 from the successful sales of common stock which was completed during the first quarter of 2022 (the "2022 Offering").

As previously noted, in 2021, the Company raised $4,500,000 from existing shareholders through the issuance of Series C Convertible Preferred Stock.

Although additional investment is not assured, the Company is comfortable that it would be able to raise sufficient capital to support expanded operations based on the current increase in business activity. In the long run, the continuation of the Company as a going concern is dependent upon the ability of the Company to continue executing the plan described above, generate enough revenue, and eventually attain consistently profitable operations. Although the current global pandemic related to the coronavirus (COVID-19) has affected our operations, particularly in supply chain, we now believe that this is expected to be an ongoing issue and our working capital assumptions reflect this new reality. In addition, inflationary pressures will cause some pressure on margins which the Company expects to offset by higher prices, although this is not assured. The Company also cannot currently quantify the uncertainty related to the recession that has now been confirmed by broadly accepted economic standards and the effects on our customers in the coming quarters. We have analyzed our cash flow under "stress test" conditions and have determined that we have sufficient liquid assets on hand to maintain operations for at least twelve months from the date of this report.

Management believes that, at this time, the conditions in our market space with ongoing contract delays, the consequent need to procure certain materials in advance of a binding contract and the additional time needed to execute on new contracts previously reported have put a strain on our cash reserves. However, recent events, including a $5,500,000 injection of funds from a sale of securities, significant recent orders, and the overall stabilization of the business, indicate that there is not a substantial doubt for the Company to continue as a going concern for a period of twelve months from the issuance of this report. We continue executing the plan to grow our business and achieve profitability without the requirement to raise additional capital for existing operations for 2022, although we may do so to fund selective opportunities that may arise. Management has extensively evaluated our requirements for the next twelve months and has determined that the Company currently has sufficient cash to operate for at least that period.

Critical Accounting Policies and Estimates

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

Accounts Receivable

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

Stock-Based Compensation

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

Determining Fair Value Under ASC 718-10

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

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

Revenue Recognition

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

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

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

The Company generates revenue from four sources: (1) Technology Systems; (2) AI Technologies; (3) Technical Support and (4) Consulting Services.

For revenues related to technology systems, the Company recognizes revenue over time using a cost-based input methodology in which significant judgment is required to estimate costs to complete projects. These estimated costs are then used to determine the progress towards contract completion and the corresponding amount of revenue to recognize.

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

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

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

The Company has revenue from applications that incorporate artificial intelligence (AI) in the form of predetermined algorithms which provide important operating information to the users of our systems. The revenue generated from these applications of AI consists of a fixed fee related to the design, development, testing and incorporation of new algorithms into the system, which is recognized as revenue at a point in time upon acceptance, as well as an annual application maintenance fee, which is recognized as revenue ratably over the contracted maintenance term.

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

The Company's consulting services business generates revenues under contracts with customers from three sources: (1) Professional Services (consulting and auditing); (2) Software licensing with optional hardware sales; and (3) Customer service training and (4) Maintenance support.

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

Multiple Performance Obligations and Allocation of Transaction Price

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The most significant estimates in the accompanying unaudited consolidated financial statements include the allowance on accounts receivable, valuation of deferred tax assets, valuation of intangible and other long-lived assets, estimates of net contract revenues and the total estimated costs to determine progress towards contract completion, estimates of the valuation of right of use assets and corresponding lease liabilities, valuation of warrants issued with debt, and valuation of stock-based awards. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended June 30, 2022 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our Company or any of our subsidiaries, threatened against or affecting our Company, our common stock, any of our subsidiaries or our Company's or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 31, 2022.

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

None

Item 3. Defaults Upon Senior Securities.

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

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit No.	Description
31.1*	Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
31.2*	Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
32.1**	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		DUOS TECHNOLOGIES GROUP, INC.
Date: August 12, 2022	By:	/s/ Charles P. Ferry Charles P. Ferry Chief Executive Officer
Date: August 12, 2022	By:	/s/ Adrian G. Goldfarb Adrian G. Goldfarb Chief Financial Officer

Exhibit 31.1

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

I, Charles P. Ferry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Duos Technologies Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly for the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 12, 2022

By: /s/ Charles P. Ferry
Charles P. Ferry
Chief Executive Officer

Exhibit 31.2

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

I, Adrian G. Goldfarb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Duos Technologies Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly for the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 12, 2022

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

EXHIBIT 32.1

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

In connection with this Quarterly Report of Duos Technologies Group, Inc. (the “Company”), on Form 10-Q for the period ended June 30, 2022, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Charles P. Ferry, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Such Quarterly Report on Form 10-Q for the period ended June 30, 2022, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in such Quarterly Report on Form 10-Q for the period ended June 30, 2022, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2022

By: */s/* Charles P. Ferry
Charles P. Ferry
Chief Executive Officer

EXHIBIT 32.2

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

In connection with this Quarterly Report of Duos Technologies Group, Inc. (the “Company”), on Form 10-Q for the period ended June 30, 2022, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Adrian G. Goldfarb, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Such Quarterly Report on Form 10-Q for the period ended June 30, 2022, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in such Quarterly Report on Form 10-Q for the period ended June 30, 2022, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2022

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