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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, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-55497

**Duos Technologies Group, Inc.**

*(Exact name of registrant as specified in its charter)*

**Florida**

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

**65-0493217**

*(IRS Employer Identification No.)*

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

*(Address of principal executive offices)*

**32216**

*(Zip Code)*

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

*(Do not check if a smaller reporting company)*

Emerging growth company

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

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

As of August 15, 2017, Duos Technologies Group, Inc. had outstanding 1,894,923 shares of common stock, par value \$0.001 per share.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	June 30, 2017 <u>(Unaudited)</u>	December 31, 2016 <u></u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 41,103	\$ 174,376
Accounts receivable	268,492	256,989
Costs and estimated earnings in excess of billings on uncompleted contracts	285,169	476,673
Prepaid expenses and other current assets	<u>201,351</u>	<u>135,964</u>
Total Current Assets	<u>796,115</u>	<u>1,044,002</u>
Property and equipment, net	66,631	66,491
<b>OTHER ASSETS:</b>		
Patents and trademarks, net	48,692	51,423
Total Other Assets	<u>48,692</u>	<u>51,423</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 911,438</u></b>	<b><u>\$ 1,161,916</u></b>

(Continued)

See accompanying notes to the unaudited consolidated financial statements.

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

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<u>(Unaudited)</u>	
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,036,538	\$ 842,787
Accounts payable - related parties	44,334	40,136
Commercial insurance/office equipment financing	140,544	46,368
Notes payable - related parties	516,209	529,485
Notes payable, net of discounts	1,481,103	87,210
Convertible notes payable, including premiums	—	193,950
Warrant derivative liability	2,161,426	793,099
Line of credit	34,602	38,019
Payroll taxes payable	971,337	444,476
Accrued expenses	1,321,187	1,218,105
Billings in excess of costs and estimated earnings on uncompleted contracts	266,758	219,625
Deferred revenue	<u>374,639</u>	<u>675,171</u>
<b>Total Current Liabilities</b>	<b>8,348,677</b>	<b>5,128,431</b>
Notes payable - related party	43,716	48,231
Notes payable, net of discounts	<u>1,338,406</u>	<u>1,206,522</u>
<b>Total Liabilities</b>	<b><u>9,730,799</u></b>	<b><u>6,383,184</u></b>
Series A redeemable convertible cumulative preferred stock, \$10 stated value per share, 500,000 shares designated, 29,600 shares issued and outstanding at June 30, 2017 and December 31, 2016 (\$313,760 and \$301,920 liquidation value at June 30, 2017 and December 31, 2016, respectively)	313,760	301,920
Commitments and Contingencies (Note 5)		
<b>STOCKHOLDERS' DEFICIT:</b>		
Preferred stock, \$0.001 par value, 10,000,000 authorized, 9,500,000 available to be issued	—	—
Common stock: \$0.001 par value; 500,000,000 shares authorized 1,894,923 and 1,892,020 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	1,895	1,892
Additional paid-in capital	<u>18,156,626</u>	<u>18,141,629</u>
Total paid-in-capital	18,158,521	18,143,521
Accumulated deficit	<u>(27,143,642)</u>	<u>(23,518,709)</u>
Sub-total	(8,985,121)	(5,375,188)
Less: Treasury stock (3,280 shares of common stock)	<u>(148,000)</u>	<u>(148,000)</u>
<b>Total Stockholders' Deficit</b>	<b><u>(9,133,121)</u></b>	<b><u>(5,523,188)</u></b>
<b>Total Liabilities and Stockholders' Deficit</b>	<b><u>\$ 911,438</u></b>	<b><u>\$ 1,161,916</u></b>

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>REVENUES:</b>				
Project	\$ 591,119	\$ 882,961	\$ 951,606	\$ 1,112,084
Maintenance and technical support	310,974	603,034	626,301	1,210,913
IT asset management services	260,411	161,149	620,327	328,389
<b>Total Revenues</b>	<b>1,162,504</b>	<b>1,647,144</b>	<b>2,198,234</b>	<b>2,651,386</b>
<b>COST OF REVENUES:</b>				
Project	375,729	377,838	721,856	519,164
Maintenance and technical support	87,592	196,340	234,994	463,673
IT asset management services	122,181	97,773	260,039	175,531
<b>Total Cost of Revenues</b>	<b>585,502</b>	<b>671,951</b>	<b>1,216,889</b>	<b>1,158,368</b>
<b>GROSS PROFIT</b>	<b>577,002</b>	<b>975,193</b>	<b>981,345</b>	<b>1,493,018</b>
<b>OPERATING EXPENSES:</b>				
Selling and marketing expenses	50,182	84,629	118,929	170,669
Salaries, wages and contract labor	840,286	938,567	1,575,887	1,824,734
Research and development	72,380	73,894	159,998	129,381
Professional fees	84,580	92,246	204,733	169,474
General and administrative expenses	310,220	238,851	558,208	419,136
<b>Total Operating Expenses</b>	<b>1,357,648</b>	<b>1,428,187</b>	<b>2,617,755</b>	<b>2,713,394</b>
<b>LOSS FROM OPERATIONS</b>	<b>(780,646)</b>	<b>(452,994)</b>	<b>(1,636,410)</b>	<b>(1,220,376)</b>
<b>OTHER INCOME (EXPENSES):</b>				
Interest Expense	(832,689)	(210,109)	(1,754,004)	(282,414)
Gain on settlement of debt	—	—	64,647	—
Warrant derivative gain (loss)	295,061	—	(287,327)	—
Other income, net	—	—	1	1,306
<b>Total Other Income (Expense)</b>	<b>(537,628)</b>	<b>(210,109)</b>	<b>(1,976,683)</b>	<b>(281,108)</b>
<b>NET LOSS</b>	<b>(1,318,274)</b>	<b>(663,103)</b>	<b>(3,613,093)</b>	<b>(1,501,484)</b>
Series A preferred stock dividends	(5,920)	—	(11,840)	—
<b>Net loss applicable to common stock</b>	<b>\$ (1,324,194)</b>	<b>\$ (663,103)</b>	<b>\$ (3,624,933)</b>	<b>\$ (1,501,484)</b>
<b>NET LOSS APPLICABLE TO COMMON STOCK PER COMMON SHARE:</b>				
Basic & Diluted	\$ (0.70)	\$ (0.35)	\$ (1.91)	\$ (0.80)
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>				
Basic & Diluted	1,894,923	1,881,640	1,894,549	1,878,653

See accompanying 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,	
	2017	2016
<b>Cash from operating activities:</b>		
<b>Net loss</b>	\$ (3,613,093)	\$ (1,501,484)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	24,599	23,752
Gain on settlement of accounts payable/note conversion	(64,647)	—
Stock issued for services	15,000	110,036
Interest expense related to debt discounts of notes payable	1,607,026	65,942
Amortization of stock based prepaid consulting fees	—	404,419
Loss related to warrants exchanged for stock	—	630
Warrant derivative loss	287,327	—
Changes in assets and liabilities:		
Accounts receivable	(11,503)	309,507
Costs and estimated earnings on uncompleted contracts	191,504	(90,148)
Prepaid expenses and other current assets	123,750	42,269
Accounts payable	190,335	263,973
Accounts payable-related party	4,198	6,216
Payroll taxes payable	526,861	36,631
Accrued expenses	123,779	54,430
Contingent lawsuit liability	—	(550,000)
Billings in excess of costs and earnings on uncompleted contracts	47,133	(162,446)
Deferred revenue	(300,532)	(389,572)
<b>Net cash used in operating activities</b>	(848,263)	(1,375,845)
Cash flows from investing activities:		
Purchase of patents/trademarks	—	(70)
Purchase of fixed assets	(22,009)	(30,073)
<b>Net cash used in investing activities</b>	(22,009)	(30,143)
Cash flows from financing activities:		
Bank overdraft	—	18,260
Proceeds from related party notes	—	50,000
Repayments of related party notes	(17,791)	(87,166)
Repayments of insurance and equipment financing	(94,960)	(92,985)
Repayments of notes payable	(172,500)	(140,000)
Proceeds of notes payable, net of \$152,750 cash fees	1,022,250	1,518,000
<b>Net cash provided by financing activities</b>	736,999	1,266,109
<b>Net decrease in cash</b>	(133,273)	(139,879)
<b>Cash, beginning of period</b>	174,376	140,129
<b>Cash, end of period</b>	41,103	250

(Continued)

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Six Months Ended	
	June 30,	
	2017	2016
<b><u>Supplemental Disclosure of Cash Flow Information:</u></b>		
Interest paid	\$ 109,884	\$ 79,498
Taxes paid	\$ —	\$ 8,469
<b><u>Supplemental Non-Cash Investing and Financing Activities:</u></b>		
Common stock issued for prepaid consulting services	\$ —	\$ 301,100
Accrued interest forgiven related to note payable settlement	\$ 20,697	\$ —
Debt discount related to notes payable	\$ 1,295,592	\$ 282,000
Note issued for financing of insurance premiums	\$ 189,136	\$ 179,024

See accompanying notes to the unaudited consolidated financial statements.

**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**  
**(Unaudited)**

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

**Nature of Operations**

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

The Company’s strategy includes expansion of its technology base through organic development efforts, strategic partnerships, and growth through strategic acquisitions. duostech’s primary target industry sectors include transportation, with emphasis on freight and transit railroad owners/operators, petro-chemical, utilities and healthcare.

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

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

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (all of which are of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2017 are not indicative of the results that may be expected for the year ending December 31, 2017 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, 2016 filed with the Securities and Exchange Commission (the “SEC”) on March 30, 2017.

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



**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**  
**(Unaudited)**

Certain amounts in the 2016 balance sheet have been reclassified from notes payable related parties - current to notes payable related parties - long-term to conform to the 2017 presentation. This reclassification of notes payable related parties – long-term in 2016 increased by \$48,231 and decreased notes payable related parties – current by the same amount.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, duostech and TrueVue 360, Inc. All inter-company transactions and balances are eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The most significant estimates in the accompanying unaudited consolidated financial statements include the allowance on accounts receivable, valuation of deferred tax assets, valuation of assets acquired and liabilities assumed in business combinations, valuation of intangible and other long-lived assets, estimates of percentage completion on projects and related revenues, valuation of stock-based compensation, valuation of derivatives, valuation of warrants issued with debt, valuation of beneficial conversion features in convertible debt, valuation of stock-based awards and valuation of loss contingencies. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**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. There were no amounts on deposit in excess of federally insured limits at June 30, 2017.

**Significant Customers and Concentration of Credit Risk**

**Major Customers and Accounts Receivable**

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, 2017, three customers accounted for 28%, 19% and 18% of revenues. For the six months ended June 30, 2016, three customers accounted for 34%, 20% and 12% of revenues.

At June 30, 2017, four customers accounted for 44%, 26%, 14% and 11% of accounts receivable. At December 31, 2016, three customers accounted for 50%, 26% and 14% of accounts receivable.

**Geographic Concentration**

Approximately 5.59% of revenue is generated from customers outside of the United States.

**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**  
**(Unaudited)**

**Derivative Instruments**

ASC Topic 815, *Derivatives and Hedging* (“ASC Topic 815”), establishes accounting and reporting standards for derivative instruments and for hedging activities by requiring that all derivatives be recognized in the balance sheet and measured at fair value. Gains or losses resulting from changes in the fair value of derivatives are recognized in earnings or recorded in other comprehensive income (loss) depending on the purpose of the derivatives and whether they qualify and have been designated for hedge accounting treatment. The Company uses a Monte Carlo based simulation model to compute the fair value of its embedded derivative instruments. Some of the more significant inputs to our fair value model that, if changed, might produce a significantly higher or lower fair value measurement of the Company’s derivative liabilities include the expected volatility, expected term and the stock price on the valuation date.

**Fair Value of Financial Instruments and Fair Value Measurements**

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

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

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

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

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

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

The estimated fair value of certain financial instruments, including accounts receivable and accounts payable are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. The cost basis of notes and convertible debentures approximates fair value due to the market interest rates carried for these instruments.

**Earnings (Loss) Per Share**

Basic earnings per share (EPS) are computed by dividing net loss applicable to common stock by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss applicable to common stock by the weighted average number of common shares outstanding for the period and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, stock warrants, convertible debt instruments, convertible preferred stock or other common stock equivalents. Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. At June 30, 2017, outstanding warrants to purchase an aggregate of 472,825 shares of common stock and at June 30, 2017, 49,803 shares issuable upon conversion of Series A preferred stock were excluded from the computation of dilutive earnings per share because the inclusion would have been anti-dilutive.

**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**  
**(Unaudited)**

**Segment Information**

The Company operates in one reportable segment.

**Recent Issued Accounting Standards**

ASU 2017-01

In January 2017, the Financial Accounting Standards Board issued Accounting Standards Update No. 2017-01: *"Business Combinations (Topic 805)"* - to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

ASU 2017-04

In January 2017, the Financial Accounting Standards Board issued Accounting Standards Update No. 2017-04: *"Intangibles - Goodwill and Other (Topic 350)"* - to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

ASU 2017-05

In February 2017, the Financial Accounting Standards Board issued Accounting Standards Update No. 2017-05: *"Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)"* - to clarify the scope of Subtopic 610-20, "Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets", and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

ASU 2017-08

In March 2017, the Financial Accounting Standards Board issued Accounting Standards Update No. 2017-08: "Receivables – Non-Refundable fees and Other Costs (Subtopic 310-20)" to amend the amortization period for certain purchased callable debt securities held at a premium. The Board is shortening the amortization period for the premium to the earliest call date. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

ASU 2016-15

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This guidance addresses eight specific cash flow issues with the objective of reducing diversity in practice regarding how certain cash receipts and cash payments are presented in the statement of cash flows. The standard provides guidance on the classification of the following items: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows. The Company is required to adopt ASU 2016-15 for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017 on a retrospective basis. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**  
**(Unaudited)**

ASU 2016-02

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02: "Leases (Topic 842)" whereby lessees will need to recognize almost all leases on their balance sheet as a right of use asset and a lease liability. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018. The Company expects this ASU will increase its current assets and current liabilities, but have no net material impact on its consolidated financial statements.

ASU 2014-09

In May 2014, the Financial Accounting Standards Board issued Update No. 2014-09: "Revenue from Contracts with Customers (Topic 606)" which requires that an entity recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Since the issuance of the original standard, the FASB has issued several updates to the standard which i) clarify the application of the principal versus agent guidance; ii) clarify the guidance relating to performance obligations and licensing; iii) clarify assessment of the collectability criterion, presentation of sales taxes, measurement date for non-cash consideration and completed contracts at transaction; and iv) clarify narrow aspects of ASC 606 or corrects unintended application of the guidance. The new revenue recognition standard, amended by the updates, becomes effective in the first quarter of 2018 and is to be applied retrospectively using one of two prescribed methods. Early adoption is permitted. The Company currently plans to adopt the new standard effective January 1, 2018 and does not believe the adoption of this standard will have a material impact on the amount or timing of its revenues.

**NOTE 2 – GOING CONCERN**

As reflected in the accompanying unaudited consolidated financial statements, the Company had a net loss of \$3,613,093 for the six months ended June 30, 2017. During the same period, cash used in operating activities was \$848,263. The working capital deficit, stockholders' deficit and accumulated deficit as of June 30, 2017 were \$7,552,562, \$9,133,121 and \$27,143,642. In addition, the Company defaulted on several promissory notes. (see Note 3). Management believes that these matters raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent on the Company's ability to further implement its business plan, raise additional capital and become profitable. Management embarked on a business growth strategy in 2014 to engage with private companies in or related to its market space with the intention of a merger or acquisition. In April 2015, the Company completed a reverse triangular merger whereby duostech became a wholly owned subsidiary of the Company. The two companies are now integrated and the merged company continues to grow its business in all of the markets where they have previously operated.

On December 20, 2016, the Company signed a Securities Purchase Agreement and Promissory Note in the aggregate principal amount of up to \$2,500,000 of which \$575,000 was remitted by the investor upon signing. The Company can draw further amounts upon achieving certain milestones related to a planned registered raise of at least \$10M. At June 30, 2017, the Company has achieved the scheduled milestones and received the second through ninth draws on January 25, 2017, February 8, 2017, February 27, 2017, March 6, 2017, March 14, 2017, April 25, 2017, June 1, 2017 and June 27, 2017 in the amounts of \$150,000, \$100,000, \$250,000, \$150,000, \$250,000, \$75,000, \$100,000 and \$100,000, respectively. Concurrently, the Company signed an investment banking engagement for the purposes of raising sufficient capital, expected to be \$11 million, to fund the Company's working capital deficit, provide sufficient funding to further the Company's growth objectives and qualify to be listed on a national stock exchange. (see Note 3, "Notes Payable – Third Party", "Note 2")

While no assurance can be provided, management believes that these actions provide the opportunity for the Company to continue as a going concern and to grow its business and achieve profitability. Ultimately however, the continuation of the Company as a going concern is dependent upon the ability of the Company to execute the plan described above, generate sufficient revenue and to attain profitable operations. These unaudited consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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**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:

Notes Payable	June 30, 2017		December 31, 2016	
	Principal	Interest	Principal	Interest
Third Party - Insurance Note 1	\$ 10,890	10.30%	\$ 25,075	9.75%
Third Party - Insurance Note 2	1,631	10.00%	9,861	10.00%
Third Party - Insurance Note 3	90,253	8.30%	—	8.05%
Third Party - Insurance Note 4	37,770	9.95%	11,432	9.24%
<b>Total</b>	<b>\$ 140,544</b>		<b>\$ 46,368</b>	

The Company entered into an agreement on December 23, 2016 with its insurance provider by executing a \$25,075 note payable (Insurance Note 1) issued to purchase an insurance policy, secured by that policy with an annual interest rate of 10.30% payable in monthly installments of principal and interest totaling \$2,234 through October 23, 2017. The note balance as of June 30, 2017 and December 31, 2016 was \$10,890 and \$25,075, respectively.

The Company entered into an agreement on September 15, 2016 with its insurance provider by executing a \$19,065 note payable (Insurance Note 2) issued to purchase an insurance policy, secured by that policy, with an annual interest rate of 10.00% payable in monthly installments of principal and interest totaling \$1,702 through June 30, 2017. At June 30, 2017 and December 31, 2016, the note payable balance was \$1,631 and \$9,861, respectively.

The Company entered into an agreement on February 3, 2017 with its insurance provider by executing a \$127,620 note payable (Insurance Note 3) issued to purchase an insurance policy, secured by that policy with an annual interest rate of 8.30% payable in monthly installments of principal and interest totaling \$13,252 through December 31, 2017. At June 30, 2017 and December 31, 2016, the note payable balance was \$90,253 and zero, respectively.

The Company entered into an agreement on April 1, 2016 with its insurance provider by executing a \$65,000 note payable (Insurance Note 4) issued to purchase an insurance policy, secured by that policy with an annual interest rate of 9.24% payable in monthly installments of principal and interest totaling \$5,782 through February 1, 2017. At June 30, 2017 and December 31, 2016, the note payable balance was \$37,770 and \$11,432, respectively. The insurance policy was renewed on April 15, 2017 with a note payable in the amount \$49,000 with an annual interest rate of 9.95% payable in monthly installments of principal and interest totaling \$4,373 through February 15, 2018.

**Notes Payable - Related Parties**

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

Notes Payable	June 30, 2017		December 31, 2016	
	Principal	Interest	Principal	Interest
Shareholder	\$ 65,000	9%	\$ 65,000	9%
Related party	13,369	8%	13,369	8%
Related party	—	—	10,504	—
Related party	56,500	8%	56,500	8%
Related Party	—	—	3,170	—
Related Party	8,431	8%	8,431	8%
CFO	31,973	8%	31,973	8%
Shareholder	226,936	6%	226,936	6%
CEO	8,781	8%	8,383	8%
Shareholder	105,219	8%	105,219	8%
Sub-total current portion	516,209		529,485	
Add long-term portion-CEO	43,716		48,231	
<b>Total</b>	<b>\$ 559,925</b>		<b>\$ 577,716</b>	

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On May 28, 2008, a shareholder who is indirectly invested in the Company with the Chief Executive Officer (CEO) through another entity, loaned the Company the sum of \$65,000 accruing interest at 9% per annum. There was an accrued interest balance of \$52,156 and \$49,231 as of June 30, 2017 and December 31, 2016, respectively. The note was repayable on or before September 15, 2008 although no demand for repayment has been received from the holder. There is no formal written agreement and the terms are documented on a letter from a former Chief Financial Officer (CFO) of the Company. The terms contain no default clauses and as of the time of this report, no demand for repayment has been made or expected. The Company intends to either negotiate a conversion to common stock or to repay the loan when sufficient working capital permits such action.

Upon the consummation of the merger on April 1, 2015, the Company assumed an Original Issue Discount (OID) promissory note with a remaining principal balance of \$15,000 accruing interest at 18% per annum. On November 30, 2015, there was an outstanding principal balance of \$15,000 and an accrued interest balance of \$2,651 in which the promissory note was restructured into a note due on or before December 15, 2016 for a total of \$17,651 principal balance, accruing interest at 8% per annum and monthly payments of \$1,535 commencing January 15, 2016. The Company made payments during the first quarter of 2016 in the amount of \$4,282 and will resume payments in the third quarter of 2017. As of June 30, 2017, the loan had an outstanding amount of \$13,369 and there was an accrued interest balance of \$1,337.

Upon the consummation of the merger on April 1, 2015, the Company assumed two promissory notes due to an entity which had previously extended credit on a revolving basis for working capital. The total principal balance was \$212,693 at the time of the merger and carried total interest and extension fees of 30% per annum. On September 30, 2015, the note and accrued interest for a total of \$275,660 was exchanged for 1,002,401 common shares. The Company recorded a loss on settlement in the amount of \$115,139. The same lender had extended further credit to the Company's TrueVue360 subsidiary which on September 30, 2015 had a principal balance of \$28,040 and accrued interest balance of \$9,777 totaling \$37,817. The note can be extended each time for a further 30 days on payment of a 1% extension fee in addition to the 1.5% interest cost which can be accrued. The Company agreed to convert this note to an 18-month term loan with 0% interest and monthly payments of \$2,100 starting November 1, 2015. The Company also issued 14,321 five-year warrants with a strike price of \$9.80 as consideration for the conversion of the larger note and the zero-interest feature of the extended payment plan. As of June 30, 2017 and December 31, 2016, the balance was zero and \$10,504, respectively.

On December 12, 2013, the wife of the CEO loaned the Company the sum of \$10,000 at an annual percentage rate of 8%. On January 29, 2015, March 3, 2015 and September 30, 2015 the wife of the CEO loaned the Company an additional \$12,000, \$5,000 and \$9,500 respectively. On January 24, 2016, an additional \$20,000 was loaned to the Company. The total principal due at June 30, 2017 and December 31, 2016 was \$56,500 and \$56,500, respectively. There was accrued interest balance of \$9,734 and \$7,474 as of June 30, 2017 and December 31, 2016, respectively. The note is repayable on demand of the holder. As of the time of this report, no such demand has been made.

Upon the consummation of the merger on April 1, 2015, the Company assumed a promissory note with a remaining principal balance of \$30,378 due to the former CEO of ISA. These amounts are non-interest bearing and are due on demand. The Company pays these loans as sufficient funds become available. At June 30, 2017 and December 31, 2016, the loan had an outstanding balance of zero and \$3,170, respectively.

Upon the consummation of the merger on April 1, 2015, the Company assumed an OID promissory note with a remaining principal and accrued interest balance of \$10,593. During the third quarter of 2015, interest payments of \$1,500 were paid. At November 30, 2015, the principal balance of the note was \$10,000, and an accrued interest balance of \$1,131 at a rate of 30% per annum was restructured into a note due on or before December 15, 2016 for a total of \$11,131 principal balance, accruing interest at 8% per annum and monthly payments of \$968 commencing January 15, 2016. The Company made payments during the first quarter of 2016 in the amount of \$2,700 and plans to resume payments in the third quarter of 2017. At June 30, 2017, the loan had an outstanding balance of \$8,431 and there was an accrued interest balance of \$843 at June 30, 2017.

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Upon the consummation of the merger on April 1, 2015, the Company assumed two promissory notes with a total principal balance of \$8,783 due to the Company's CFO. During the second quarter of 2015, the CFO loaned the Company an additional \$365 and the Company made payments to the CFO during the same period in the amount of \$1,307. These advances do not incur any interest and will be paid by the Company when sufficient funds are available. On January 28, 2016, the CFO loaned the Company \$30,000, accruing interest at 8% per annum which is repayable by the Company when sufficient funds are available. At June 30, 2017, the outstanding loan balance was \$31,973 and there was an accrued interest balance of \$3,420 at June 30, 2017.

On April 8, 2015, the Company received a \$310,000 loan from a related party principal shareholder. The note accrues interest at the rate of 6% per annum and was repayable on or before October 31, 2015. There was accrued interest balance of \$8,616 as of September 30, 2015. The Company and shareholder have agreed to replace the note with a new note in the amount of \$320,166, which includes principal and accrued interest through October 31, 2015. Repayment shall occur with eleven monthly payments of \$27,750 plus one final payment of \$27,007 (including interest of 6%) beginning on or before December 31, 2015. As of June 30, 2017, the Company is fifteen payments in arrears and the outstanding balance was \$226,936.

On July 19, 2016, the Company received a \$60,000 loan less fees of \$75 for a related party loan with proceeds of \$59,925 from the Company's CEO. The promissory note carries an annual interest rate of 7.99% with a monthly installment payment of \$1,052 through July 19, 2022. As of June 30, 2017 and December 31, 2016, the outstanding balance was \$52,497 and \$56,614, respectively.

On August 11, 2016, the Company received an \$111,645 loan from a related party principal shareholder. The note accrues interest at the rate of 8% per annum and is repayable on or before February 11, 2017. As of June 30, 2017, the outstanding balance was \$105,219. The note is currently in technical default. However, as of the time of this report, the lender has agreed not to pursue any default remedies and has informally agreed to work with us until such time as the note can be repaid.

**Notes Payable**

Payable To	June 30, 2017		December 31, 2016	
	Principal	Interest	Principal	Interest
Shareholder	\$ 19,108	—	\$ 19,108	—
Vendor	—	—	22,500	—
<b>Total</b>	<b>\$ 19,108</b>		<b>\$ 41,608</b>	

Upon the consummation of the merger on April 1, 2015, the Company assumed a promissory note with a remaining principal balance of \$19,108 due to an unrelated party investor and shareholder of the Company. The \$19,108 is non-interest bearing and currently due, although the note holder has not made any demand for payment at this time.

On August 10, 2015, the Company entered into an agreement with FacilityTeam of Ontario, Canada to settle a dispute that had arisen concerning payments for software development services. The Company agreed to pay to FacilityTeam \$2,500 per month starting October 1, 2015 for 24 months and, pursuant thereto, took a charge in the third quarter of 2015 for the settlement amount of \$60,000. At June 30, 2017 and December 31, 2016, the outstanding balance was zero and \$22,500, respectively.

**Convertible Notes, Including Premiums**

Payable To	June 30, 2017			December 31, 2016		
	Principal	Premium	Principal, Including Premium	Principal	Premium	Principal, Including Premium
Vendor	\$ —	\$ —	\$ —	\$ 50,000	\$ 50,000	\$ 100,000
Vendor	—	—	—	46,975	46,975	93,950
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 96,975</b>	<b>\$ 96,975</b>	<b>\$ 193,950</b>

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Upon the consummation of the merger on April 1, 2015, the Company assumed a convertible promissory note of \$50,000 due to a vendor of the Company which included a premium of \$50,000 relating to its treatment as stock settled debt under ASC 480. The \$50,000 convertible note accrues interest at 1% per month and is convertible into the Company's common stock at a 50% discount to the average closing bid prices for the company's common stock for the five days immediately preceding the conversion date. An interest payment was made on January 11, 2016 in the amount of \$3,230. The outstanding note balance at December 31, 2016 and 2015 was \$50,000 and \$50,000, respectively and accrued interest on December 31, 2016 and 2015 was \$7,511 and \$4,723, respectively. As previously disclosed, on May 23, 2016, the Company filed a lawsuit against, the holder of this note and another convertible note described below. The Company owes the principal and interest due under the notes and has sought to pay principal and interest of the note which first came due but its offer was rejected. On January 19, 2017, the Company executed a settlement agreement with this vendor resolving the pending lawsuit concerning the two convertible notes. The settlement calls for payment of \$150,000 due within 45 days of execution thereof and resolves all outstanding obligations. Payment was made on March 7, 2017 and a gain on settlement of \$64,647 was recorded by the Company.

Upon the consummation of the merger on April 1, 2015, the Company assumed a promissory note with a remaining principal balance of \$44,325 bearing interest at 1.5% per month. The note holder gave 30-day notice to the Company on May 1, 2015 for the note to be repaid in full plus any interest due. On June 30, 2015, an Addendum to Promissory Note was executed providing that the payment of \$46,975, \$44,325 plus accrued interest of \$2,650, in connection with the Debt Purchase Agreement represents the total settlement of the Note. Also, on June 30, 2015 a current shareholder and services provider agreed to assume the new \$46,975 note with the existing terms and conditions and an addendum was signed for the assumption and making the note convertible into the Company's common stock at a 50% discount to the average price of the Company's common stock for the five trading days preceding conversion and the new Note is non-interest bearing. The addendum was treated as a debt extinguishment. The Company recorded a premium of \$46,975 since the note was convertible at a fixed rate to a fixed monetary amount equal to \$93,950 pursuant to ASC 480. On each of December 31, 2016 and 2015, the outstanding balance on the note was \$93,950 which includes the \$46,975 premium and there was accrued interest on December 31, 2016 and 2015 of \$12,682 and \$4,228, respectively. During the previous quarter, the new holder attempted a conversion into stock of a portion of the note. The Company determined that the conversion notice was invalid in several respects and rejected the conversion. As previously disclosed, on May 23, 2016, the Company filed a lawsuit against, the holder of this note and another convertible note described above. The Company owes the principal and interest due under the notes and has sought to pay principal and interest of the note which first came due but its offer was rejected. On January 19, 2017, the Company executed a settlement agreement with this vendor resolving the pending lawsuit concerning the two convertible notes. The settlement calls for payment of \$150,000 due within 45 days of execution thereof and resolves all outstanding obligations. Payment was made on March 7, 2017.

**Notes Payable – Third Party**

	June 30, 2017			December 31, 2016		
	Principal	Less Unamortized Discounts	Principal, Less Unamortized Discounts	Principal	Less Unamortized Discounts	Principal, Less Unamortized Discounts
Payable To						
Note 1-non-current	\$ 1,800,000	\$ 461,594	\$ 1,338,406	\$ 1,800,000	\$ 593,478	\$ 1,206,522
Note 2-current	1,842,105	380,110	1,461,995	605,263	559,661	45,602
<b>Total</b>	<b>\$ 3,642,105</b>	<b>\$ 841,704</b>	<b>\$ 2,800,401</b>	<b>\$ 2,405,263</b>	<b>\$ 1,153,139</b>	<b>\$ 1,252,124</b>

**Note 1**

On March 31, 2016, the Company entered into a Securities Purchase Agreement with an institutional investor, which, together with the transaction documents referenced therein, provides for the terms in the following paragraph. The Company closed the Offering on April 1, 2016.



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The offering amount was \$1,800,000 less a 5% original issue discount. The note is a senior debt obligation secured by substantially all assets of the Company and shares of all current and future subsidiaries as well as being guaranteed by each subsidiary but is not convertible into the Company's stock. The senior secured note also contains certain default provisions and is subject to standard covenants such as restrictions on issuing new debt. In conjunction with the note, the Company issued a warrant exercisable for 71,249 shares of common stock exercisable for five years at an exercise price of \$12.25 per share. The warrants also contain certain anti-dilution provisions that apply in connection with any stock split, stock dividend, stock combination, recapitalization or similar transactions as well as a potential adjustment to the exercise price based on certain events. The relative fair value of the warrants of \$466,031 was recorded as a debt discount and is being amortized to interest expense over the term of the debt. The note will mature three years from the closing date and will accrue interest at the rate of 14% per annum, payable monthly. The note will accrue additional interest at the rate of 2% per annum, compounding monthly, payable annually in arrears. The Company may choose to begin amortizing the principal at any time subject to prepayment premiums. Also, the Company agreed to an amended placement agent's fee with respect to the placement of such loan which differed from the original terms agreed with the Placement Agent as that agreement had expired (see Note 5, Placement Agency Agreement). The amendment included (a) postponement of payment of the cash fee of \$5,000 to 15 days after execution of the term sheet, (b) the closing fee was fixed to \$137,000 (based on a \$1.8 million debt funding) and three-year warrants for 5,715 shares at an exercise price of \$14 per share and valued at their fair value of \$43,272. Other closing expenses totaled \$40,000 plus another \$10,000 of legal fees previously paid. Total cash issue costs of \$192,000, the original issue discount of \$90,000, the warrant relative fair value of \$466,031 and warrant fair value of \$43,272 were recorded as debt discounts to be amortized over the three-year term of the debt. Net proceeds were \$1,518,000 after all issue costs. Additionally, at closing, certain previously recorded obligations of the Company totaling \$690,110, as discussed below, were paid directly from the lender reducing the actual proceeds to the Company.

On April 1, 2016, in conjunction with the closing of the aforementioned Securities Purchase Agreement, the sum of \$558,032 was remitted out of the proceeds in final settlement of the litigation with CW Electric. This amount consisted of \$550,000 of the agreed settlement, which was previously accrued as of December 31, 2015, plus \$8,032 of accrued interest. This represents full and final settlement of this matter, which is now closed.

On April 1, 2016, the Company directed the sum of \$132,078 to be paid out of proceeds of the Securities Purchase agreement to a shareholder who held a note secured against part of the Company's assets. The payment of \$125,000 in principal and \$7,078 of accrued interest represents full payment of the note and the noteholder no longer holds any security against the assets.

On April 1, 2016, the Company made a payment of \$142,000 (part of the \$192,000 discussed above) to a placement agent as compensation for arrangement of financing through the aforementioned Securities Purchase Agreement. The payment was deducted from proceeds of that agreement. As discussed above, the Company also issued 5,715 three-year warrants with an exercise price of \$14 to the agent as additional compensation. These amounts are broadly in line with the anticipated compensation agreed within the original placement agency agreement which was terminated in December 2015.

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Note 2

On December 20, 2016, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with JMJ Financial, ("JMJ," and together with the Company, the "Parties") and borrowed an initial principal amount of \$605,263 from the total available as discussed below. Pursuant to the Purchase Agreement, JMJ purchased from the Company (i) a Promissory Note in the aggregate principal amount of up to \$2,500,000 (the "Note") for consideration of up to \$2,350,000 net of an original issue discount of 5%, due and payable on the earlier of May 15, 2017 or the third business day after the closing of the Public Offering (as defined therein), and (ii) a Common Stock Purchase Warrant (the "Warrant") to purchase 115,289 shares of the Company's common stock ("Common Stock") at an exercise price per share equal to the lesser of (i) 80% of the per share price of the Common Stock in the Company's contemplated public offering of securities (the "Public Offering"), (ii) \$5.25 per share, (iii) the lowest daily closing price of the Common Stock during the ten days prior to the Public Offering (subject to adjustment), (iv) the lowest daily closing price of the Common Stock during the ten days prior to the Maturity Date (subject to adjustment), (v) 80% of the unit price in the Public Offering (if applicable), or (vi) 80% of the exercise price of any warrants issued in the Public Offering. Additionally, pursuant to the Purchase Agreement, the Company will issue JMJ shares of Common Stock equal to 30% of the principal sum of the Note ("Origination Shares") on the 5th trading day after the pricing of the Public Offering, but in no event later than May 30, 2017. The number of Origination Shares will equal the principal sum of the Note divided by the lowest of (i) the lowest daily closing price of the Common Stock during the ten days prior to delivery of the Origination Shares or during the ten days prior to the date of the Public Offering (in each case subject to adjustment for stock splits), (ii) 80% of the common stock offering price of the Public Offering, (iii) 80% of the unit price offering price of the Public Offering (if applicable), or (iv) 80% of the exercise price of any warrants issued in the Public Offering. Cash closing expenses totaled \$46,000 to the private placement agent. The Company also issued warrants for 9,224 common stock to the placement agent with the same terms as the lender warrants. Total cash issue costs of \$46,000, the original issue discount of \$30,263 and a discount relating to the warrants of \$529,000 were recorded as debt discounts to be amortized over the 146-day term of the debt. Net proceeds were \$529,000 after all issue costs. The Company previously paid and expensed legal fees of \$28,750 and paid an advance retainer of \$50,000 to a law firm for future work relating to the planned public offering which is recorded as a prepaid asset at December 31, 2016. The Company recorded expenses in the amount of \$30,000 during the first quarter of 2017. At June 30, 2017, the prepaid balance was \$20,000. (see Note 10)

On January 25, 2017, the Company borrowed an additional \$157,895 and received a net amount of \$130,500 representing the second draw against the Securities Purchase agreement with JMJ Financial. The total cash issue costs of \$12,000, the original issue discount of \$7,895, legal fees of \$7,500 and a discount relating to the warrants of \$138,000 were recorded as debt discounts to be amortized over the remaining 232-day term of the debt. Warrants in the amount of 30,075 were issued as per the agreement.

On February 8, 2017, the Company borrowed an additional \$105,263 and received a net amount of \$87,000 representing the third draw against the Securities Purchase agreement with JMJ Financial. The total cash issue costs of \$8,000, the original issue discount of \$5,263, legal fees of \$5,000 and a discount relating to the warrants of \$92,000 were recorded as debt discounts to be amortized over the remaining 218-day term of the debt. Warrants in the amount of 20,050 were issued as per the agreement.

On February 27, 2017, the Company borrowed an additional \$263,158 and received a net amount of \$217,500 representing the fourth draw against the Securities Purchase agreement with JMJ Financial. The total cash issue costs of \$20,000, the original issue discount of \$13,158, legal fees of \$12,500 and a discount relating to the warrants of \$230,000 were recorded as debt discounts to be amortized over the remaining 199-day term of the debt. Warrants in the amount of 50,138 were issued as per the agreement.

On March 6, 2017, the Company borrowed an additional \$157,895 and received a net amount of \$130,500 representing the fifth draw against the Securities Purchase agreement with JMJ Financial. The total cash issue costs of \$12,000, the original issue discount of \$7,895, legal fees of \$7,500 and a discount relating to the warrants of \$138,000 were recorded as debt discounts to be amortized over the remaining 192-day term of the debt. Warrants in the amount of 30,075 were issued as per the agreement.

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On March 14, 2017, the Company borrowed an additional \$263,158 and received a net amount of \$217,500 representing the sixth draw against the Securities Purchase agreement with JMJ Financial. The total cash issue costs of \$20,000, the original issue discount of \$13,158, legal fees of \$12,500 and a discount relating to the warrants of \$230,000 were recorded as debt discounts to be amortized over the remaining 184-day term of the debt. Warrants in the amount of 50,138 were issued as per the agreement.

On April 25, 2017, the Company borrowed an additional \$78,947 and received a net amount of \$65,250 representing the seventh draw against the Securities Purchase agreement with JMJ Financial. The total cash issue costs of \$6,000, the original issue discount of \$3,947, legal fees of \$3,750 and a discount relating to the warrants of \$69,000 were recorded as debt discounts to be amortized over the remaining 97-day term of the debt. Warrants in the amount of 15,038 were issued as per the agreement.

On June 1, 2017, the Company borrowed an additional \$105,263 and received a net amount of \$87,000 representing the eighth draw against the Securities Purchase agreement with JMJ Financial. The total cash issue costs of \$8,000, the original issue discount of \$5,263, legal fees of \$5,000 and a discount relating to the warrants of \$92,000 were recorded as debt discounts to be amortized over the remaining 60-day term of the debt. Warrants in the amount of 20,050 were issued as per the agreement.

On June 27, 2017, the Company borrowed an additional \$105,263 and received a net amount of \$87,000 representing the ninth draw against the Securities Purchase agreement with JMJ Financial. The total cash issue costs of \$8,000, the original issue discount of \$5,263, legal fees of \$5,000 and a discount relating to the warrants of \$92,000 were recorded as debt discounts to be amortized over the remaining 34-day term of the debt. Warrants in the amount of 20,050 were issued as per the agreement.

**NOTE 4 – LINE OF CREDIT**

The Company assumed a line of credit with Wells Fargo Bank upon merger with ISA on April 1, 2015. The line of credit provided for borrowings up to \$40,000, but is now closed to future borrowing. The balance as of June 30, 2017 and December 31, 2016, was \$34,602 and \$38,019, respectively, including accrued interest. This line of credit has no maturity date. The annual interest rate is 10.75% at June 30, 2017. The former CEO of ISA is the personal guarantor.

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

**Placement Agency Agreement**

On January 6, 2016, the Company entered into an agreement with an investment banker to provide general financial advisory and investment banking services. Services included, but not limited to in the agreement are to provide a valuation analysis of the Company, assist management and advise the Company with respect to its strategic planning process and business plans including an analysis of markets, positioning, financial models, organizational structure, potential strategic alliances, capital requirements, potential national listing and working closely with the Company's management team to develop a set of long and short-term goals with special focus on enhancing corporate and shareholder value. The Agreement is for an initial term of six months. The Company shall pay a non-refundable fee accruing at the rate of \$10,000 per month, for the term of the agreement. These advisory fee payments will be accrued and deferred for payment until the earlier of 1) closing of a financing described in the agreement, 2) a closing of interim funding at which point fifty percent (50%) of the outstanding monthly advisory fee will be payable on the last day of the month following closing of the interim financing or 3) the termination of the agreement. The Company issued to the investment banker 26,058 vested shares of the Company's common stock as of the execution date of this agreement. In addition, the Company issued warrants for the purchase of 8,629 shares of the Company's common stock. The warrants shall have a five-year term and an exercise price of \$10.50.

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On January 27, 2016, the Company entered into an agreement with a consultant to provide advisory services for an initial period of six months. The consultant will assist the Company with its objective of evaluating financing and other strategic options in connection with operational expansion and respond to any opportunities that arise in regard to strategic partnerships/acquisition/joint ventures or other business relationships that may advance revenue growth and enterprise value. Upon a qualified financing of at least \$1,500,000 through a party introduced by the consultant, the Company agreed to issue up to \$90,000 in equity or cash at the same rate and terms as the basis of the financing. In consideration for development services thirty days from the execution of this agreement, 572 shares of restricted common stock of the Company will be granted to the consultant or assigns and be issued within fifteen days of the grant. Also, 858 additional shares shall be granted to the consultant or assigns on completion of any transactions with a potential participant. In consideration for advisory services, the non-refundable sum of \$5,000 was payable upon execution of the agreement with a further \$5,000 to be deferred and paid upon the completion of any transaction with a potential participant. On May 5, 2016, the Company cancelled the agreement due to lack of performance with the consultant who was to provide advisory services for an initial period of six months. The Company paid an initial amount of \$2,500 and no further compensation will be paid. No shares of common stock were issued in connection with this agreement.

On May 13, 2016, the Company entered into an agreement with a consultant in the business of providing services for management consulting, business advisory, shareholder information and public relations for a period of three months. During the Term of this Agreement, the Company will pay to the Consultant the sum of \$3,000 per month. The Company may accrue monthly fees without payment to the consultant until the company closes a qualified financing other than the first month's retainer. Upon signing, the Company issued to the Consultant 3,572 shares of the Company's restricted common stock for a total purchase price of \$100 and recorded \$27,400 as a prepaid asset to be amortized over the three-month term. The Company amortized \$27,400 to expense as of December 31, 2016. As of August 14, 2016, the agreement had expired and was not renewed in writing by the parties as called for in the agreement. The Company continues to work with the Principal on certain potential funding arrangements that were started (but not consummated) during the period in which the contract was in effect.

On September 1, 2016, the Company entered into an agreement with a registered investment broker, for the purposes of securing interim and long-term funding for the Company. During the ninety-day term of this agreement, the Company was to pay the broker \$50,000, certain travel expenses, plus 7% cash fee of the aggregate principle amount raised on a qualified financing. The Company has paid an initial amount of \$6,500 to the broker and the broker sent materials to qualified investors. The Company has cancelled the agreement effective December 27, 2016 and the initial fee of \$6,500 was refunded to the Company on February 1, 2017 less a \$250 fee.

#### **Litigation**

On August 10, 2015, the Company entered into an agreement with FacilityTeam of Ontario, Canada to settle a dispute that had arisen concerning payments for software development services. The Company strongly believed that FacilityTeam did not deliver the products promised and felt that we would prevail in arbitration called for by the contract between the parties. Ultimately, the Company opted to settle the matter for the cost of the litigation which was estimated be at least \$60,000; rather than spend further resources on defending the claim and pursuing the counterclaim against FacilityTeam. The Company agreed to pay to FacilityTeam \$2,500 per month starting October 1, 2015 for 24 months and taking a charge in the third quarter of 2015 for the settlement amount of \$60,000. On December 12, 2016, the Company was notified that it was in breach of settlement with a previous vendor, FacilityTeam based in in Ontario, Canada alleging failure to make payments against that settlement. On December 28, 2016, the Company subsequently agreed to a modified payment schedule as part of a post judgement settlement for the amounts still outstanding. The final payment of \$5,000 was made on March 7, 2017.

On May 12, 2016, in Broward County, Florida, the holder of two convertible notes entered into in March and June 2015 in the amount of \$50,000 and \$46,975 respectively sued the company alleging that the Company was in default for not making scheduled principal and interest payment and failing to convert a portion of the notes into the Company's common stock. As previously reported, on May 23, 2016, we filed a lawsuit in Broward County, Florida against, Greentree Financial Group, Inc., the holder of \$96,975 aggregate principal amount of our convertible notes. The suit alleges, amongst other things, that the officers and directors of Greentree that entered into the notes, failed to disclose legal facts with respect to their personal conduct in the past, which, had the Company known, would have made it unlikely that such transaction would have been consummated.

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The Company owes the principal and interest due under the notes and sought to pay principal and interest of the note which first came due, but its offer was rejected. On January 23, 2017, the Company executed a settlement agreement with Greentree Financial Group resolving a pending lawsuit concerning these two convertible notes. The settlement called for payment of \$150,000 within 45 days of execution thereof and resolves all outstanding obligations related to the Notes. The payment was made on March 7, 2017.

**Delinquent Payroll Taxes Payable**

As reported previously, the Company has a delinquent payroll tax payable at June 30, 2017 and December 31, 2016 in the amount of \$931,683 and \$400,076, respectively. The delinquent portion is included in the payroll taxes payable balance of \$971,337 and \$444,476, respectively, as shown on the Company's consolidated balance sheet. The IRS has accepted the Company's offer of a monthly installment agreement in the amount of \$25,000 commencing March 28, 2016. The monthly installment payments made as of June 30, 2017 totals \$250,000.

**NOTE 6 – RELATED PARTIES**

**Notes, Loans and Accounts Payable**

As of June 30, 2017 and December 31, 2016, there were various notes and loans payable to related parties totaling \$559,925 and \$577,716, respectively, with related unpaid interest of \$82,742 and \$62,959 respectively (see Note 3). The Company also has accounts payable-related party's due to an officer for expense reimbursement and due to an affiliate for services in the total amount of \$44,334 and \$40,136 at June 30, 2017 and December 31, 2016, respectively.

**NOTE 7 – FAIR VALUE MEASUREMENTS**

We currently measure and report at fair value the liability for warrant derivative instruments. The fair value liabilities for price adjustable warrants have been recorded as determined utilizing the BSM option pricing model and Monte Carlo simulations. The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

	<u>Balance at June 30, 2017</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Liabilities:</b>				
Fair value of liability for warrant derivative instruments	\$ 2,161,426	\$ —	\$ —	\$ 2,161,426

The following is a roll forward through June 30, 2017 of the fair value liability of warrant derivative instruments:

	<u>Fair Value of Liability for Warrant Derivative Instruments</u>
Balance at December 31, 2016	\$ 793,099
Initial fair value of warrant liability	1,081,000
Change in fair value included in other (income) loss	287,327
Balance at June 30, 2017	<u>\$ 2,161,426</u>

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**NOTE 8 – STOCKHOLDERS’ DEFICIT**

**Common stock issued for services**

During the first quarter of 2017, the Company issued 2,903 shares of common stock for services valued at the quoted trading price on respective grant dates resulting in a consulting expense of \$15,000.

**NOTE 9 – COMMON STOCK PURCHASE WARRANTS**

**Warrants**

The following is a summary of activity for warrants to purchase common stock for the six months ended June 30, 2017:

	<b>June 30, 2017</b>		
	<b>Number of Warrants</b>	<b>Weighted Avg. Exercise Price</b>	<b>Remaining Contractual Life (Years)</b>
Outstanding at the beginning of the year	218,764	\$ 8.40	4.6
Warrants expired	(375)	233.45	
Warrants issued with debt	254,436	5.25	4.9
Outstanding at end of period	472,825	6.77	4.4
Exercisable at end of period	472,825	\$ 6.77	4.4

During the first quarter of 2017, 194,888 warrants were issued with the Securities Purchase Agreement and the amended Placement Agent Agreement. During the same period, 375 warrants expired.

During the second quarter of 2017, 59,548 warrants were issued with the Securities Purchase Agreement and the amended Placement Agent Agreement.

**NOTE 10 – SUBSEQUENT EVENTS**

**Amendment to \$2,500,000 Promissory Note**

On May 15, 2017, the Company was obligated to repay the principal due to a lender on a bridge loan totaling \$1,627,632. On May 22, 2017, the Company obtained an amendment #1 to the Securities Purchase Agreement (“SPA”) and the \$2,500,000 Promissory Note (“Note”). This amendment extended the original Maturity Date for the Promissory Note from May 15, 2017 to June 15, 2017 (“Extended Maturity Date”) and extended the Origination Shares issuance date in the Stock Purchase Agreement from May 30, 2017 to June 15, 2017.

On July 12, 2017, the Company obtained an amendment #2 to the Securities Purchase Agreement (“SPA”) and the \$2,500,000 Promissory Note (“Note”). This amendment extended the original Maturity Date for the Promissory Note from June 15, 2017 to July 31, 2017 (“Extended Maturity Date”) and extended the Origination Shares issuance date in the Stock Purchase Agreement from May 30, 2017 to July 31, 2017.

On August 14, 2017, the Company obtained an amendment #3 to the Securities Purchase Agreement (“SPA”) and the \$2,500,000 Promissory Note (“Note”). This amendment extended the original Maturity Date for the Promissory Note from July 31, 2017 to August 31, 2017 (“Extended Maturity Date”) and extended the Origination Shares issuance date in the Stock Purchase Agreement from May 30, 2017 to August 31, 2017.

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The Investor conditionally waived the defaults for the Company's failure to meet the original Maturity Date of the Note and delivery date for the Origination Shares. The Investor waived any damages, fees, penalties, liquidated damages, or other amounts or remedies otherwise resulting from such defaults through the Extended Maturity Date, and such conditional waiver is conditioned on the Issuer's not being in default of and not breaching any term of the Note or the SPA or any other Transaction Document at any time subsequent to the date of the Amendment. If the Company triggers an event of default or breaches any term of the Note, the SPA, or the Transaction Documents at any time subsequent to the date of the Amendment, the Investor may issue a notice of default for the Company's failure to meet the original Maturity Date of the Note and original delivery date of the Origination Shares. (see Note 3, "Notes Payable – Third Party", "Note 2")

*GPB Debt Holdings II, LLC Letter Agreement*

On August 1, 2017, the Company entered into a letter agreement with GPB Debt Holdings II LLC ("GPB"), whereby GPB agreed to convert \$212,077 due and owing to it under that certain senior secured note issued by the Company on April 1, 2016 ("GPB Debt Obligation") into common stock of the Company, contingent upon the completion of the Offering (the "GPB Letter Agreement"). Pursuant to the GPB Letter Agreement, the GPB Debt Obligation will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the GPB Debt Obligation by the price per share of common stock paid by the investors in the Offering. GPB has agreed to enter into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by him for a period of 6 months.

Pursuant to the terms and conditions of the Note, the Company shall continue to make its monthly interest payments beginning on September 1, 2017 with a payment of \$63,633 representing July 2017, August 2017 and September 2017 interest payments and payments thereafter until the Maturity Date. On the Maturity Date (as defined in the Note), GPB shall have the right, but not the obligation, to "put" to the Company any Conversion Shares issued to GPB pursuant to the Automatic Conversion that have not been sold for redemption in cash, in the amount equal to the number of such put Conversion Shares multiplied by the Conversion Price, payable within five days of the Company's receipt of written notice indicating such election by GPB. Additionally, GPB will also be issued warrants, on the same terms and in substantially the same form offered to investors in the Offering (the "Warrants"), except that such Warrants will be restricted securities, and will not trade on the OTC Markets OTCQB.

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

*This Form 10-Q and other reports filed by the Company from time to time with the U.S. Securities and Exchange Commission (collectively, the “Filings”) contain or may contain forward-looking statements 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,” 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 reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors, including the risks relating to the Company’s business, industry, and the Company’s operations and results of operations. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.*

*Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.*

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

### **Overview**

Duos Technologies Group Inc. was incorporated in Florida on May 31, 1994 (the “Company”) under the original name of Information Systems Associates (“ISA”). Initially, our business operations consisted of consulting services for asset management of large corporate data centers and development and licensing of Information Technology (IT) asset management software. In late 2014, ISA entered negotiations with Duos Technologies, Inc. (“DTI”), for the purposes of executing a reverse triangular merger. This transaction was completed on April 1, 2015. DTI was incorporated under the laws of Florida on November 30, 1990 for design, development and deployment of proprietary technology applications and turn-key engineered systems. The Company, based in Jacksonville, Florida, employs approximately 38 people and is a technology company with a strong portfolio of intellectual property, with core competencies that include advanced intelligent technologies that are delivered through its proprietary integrated enterprise command and control platform.

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

The Company’s strategy includes continued expansion of its technology base through organic development efforts, strategic partnerships, and growth through strategic acquisitions. The Company’s primary target industry sectors include transportation, with emphasis on freight and transit railroad owners/operators, petro-chemical, utilities and healthcare. Our strategy for the next 12 months is to continue to pursue the key target markets described herein and expand the offerings within those markets as available capital allows.

Specifically, based upon a successful capital raise, the Company intends to undertake to invest in sales and marketing resources to broaden its reach into the target markets, evaluate key requirements within those markets and add development resources to allow us to compete for additional projects thereby driving revenue growth. In addition, the original business of IT Asset Management (ITAM) services for large data centers is now operated as a division of the Company that continues its sales efforts through large strategic partners.



## Prospects and Outlook

Over the past several years, we have made substantial investments in product research and development and achieved significant milestones in the development of our technology solutions. We have made progress in penetrating the market with our proprietary technology solutions, more particularly in the rail industry which is currently undergoing a major shift in maintenance strategies. We believe that this shift will be a significant motivating factor for using our technologies. We also continue to expand our IT professional audit services.

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

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

## Results of Operation

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

### Comparison for the Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

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

	For the Three Months Ended	
	June 30,	
	2017	2016
Revenue	\$ 1,162,504	\$ 1,647,144
Cost of Revenue	585,502	671,951
Gross profit	577,002	975,193
Operating expenses	1,357,648	1,428,187
Loss from operations	(780,646)	(452,994)
Other income (expense)	(537,628)	(210,109)
Net loss	(1,318,274)	(663,103)
Series A preferred stock dividends	(5,920)	—
Net loss applicable to common stock	\$ (1,324,194)	\$ (663,103)

## Revenues

Revenues were \$1,162,504 and \$1,647,144 for the three months ended June 30, 2017 and 2016, respectively. The comparative 29% decrease in revenue during 2017 was largely the result of the decrease in project revenue of 33% and an offset with an increase of 61% in the IT asset management services. With the anticipated decrease in maintenance and technical support as the business shifts its focus from legacy security products to advanced intelligence offerings, the 51% decrease in maintenance and technical support was all from one legacy customer who did not renew their contract at the end of 2016. The revenue from this line item will be replaced over the next reporting periods with an anticipated increase in consulting services for the rail business and recurring maintenance revenues from new projects after the initial maintenance free period.

## Cost of Revenues

Costs of revenues were \$585,502 and \$671,951 for the three months ended June 30, 2017 and 2016, respectively. The decrease in 2017 cost of the project implementation was related to decreased project revenue. Other increases in costs of revenues are generally in line with the increase in revenue in these categories with IT asset management services showing a slight improvement most related to economies of scale. It should be noted that the decrease in 2017 cost of the maintenance and technical support is due to the budgeted decrease in revenue.

## **Gross Profit**

Gross Profit was \$577,002 and \$975,193 for the three months ended June 30, 2017 and 2016, respectively. The decrease in gross profit was mainly the result of the decrease in project revenues. This decrease was partially offset by lower costs overall in the project costs as well as maintenance and technical support with also an offset with better than anticipated performance in the IT asset management areas. The combination of these items resulted in a reduction of only 13% in overall gross margin compared to the comparative quarter in 2016 versus a larger decrease in revenues.

## **Operating Expenses**

Operating expenses for the three months ended June 30, 2017 and 2016 were \$1,357,648 and \$1,428,187 respectively, a decrease of \$70,539. This decrease in expenses was mainly due to a decrease in contract labor, selling and marketing and professional expenses of \$140,394. However, this decrease was offset by an increase of \$71,369 in general and administration expenses related to operating as a public company, expenses related to our corporate actions including a planned up-listing to a national exchange.

## **Loss Before Other Income (Expense)**

The loss from operations for the three months ended June 30, 2017 and 2016 were \$780,646 and \$452,994, respectively. The increase in loss from operations was mostly due to the overall decrease in revenue for the period although results were negatively affected by increased costs related to the registered equity offering and planned up-listing to a national exchange. These increased costs are anticipated to continue in the third quarter 2017.

## **Interest Expense**

Interest expense for the three months ended June 30, 2017 and 2016 was \$832,689 and \$210,109 respectively. The increase in interest expense was almost entirely due to non-cash charges in connection with debt discount and warrant amortization expense for bridge financing entered into in late 2016. The bridge financing costs are expected to terminate once the Company completes a planned registered equity offering and the subject financing is repaid in full.

## **Warrant derivative gain**

Warrant derivative gain for the three months ended June 30, 2017 and 2016 was \$295,061 and zero, respectively. The gain recorded in the second quarter 2017 was primarily the result of the decrease in common stock share price that affected the evaluation for the non-cash warrant derivative expense related to the funding draws against the Company's promissory note with JMJ Financial.

## **Other Income**

Other income for the three months ended June 30, 2017 and 2016 was zero and zero, respectively.

## **Net Loss**

The net loss for the three months ended June 30, 2017 and 2016 was \$1,318,274 and \$663,103, respectively. The \$655,171 increase in net loss is primarily attributable to the non-cash charges in 2017 of \$327,519 in debt discount expense and warrant derivative expense on debt related to bridge financing and decrease in overall revenue. Net loss applicable to Common Stock was \$1,324,194 in 2017 versus \$663,103 in 2016, an increase of \$661,091. The loss in the second quarter of 2017 included a charge for Preferred Stock Dividends of \$5,920. Net loss per common share was \$(0.70) and \$(0.35) for the three months ended June 30, 2017 and 2016.

## Comparison for the Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

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

	For the Six Months Ended	
	June 30,	
	2017	2016
Revenue	\$ 2,198,234	\$ 2,651,386
Cost of Revenue	1,216,890	1,158,368
Gross profit	981,344	1,493,018
Operating expenses	2,617,755	2,713,394
Loss from operations	(1,636,411)	(1,220,376)
Other income (expense)	(1,976,682)	(281,108)
Net loss	(3,613,093)	(1,501,484)
Series A preferred stock dividends	(11,840)	—
Net loss applicable to common stock	\$ (3,624,933)	\$ (1,501,484)

### Revenues

Revenues were \$2,198,234 and \$2,651,386 for the six months ended June 30, 2017 and 2016, respectively. The comparative 17% decrease in revenue during 2017 was largely the result of the decrease in project revenue and the anticipated decrease in maintenance and technical support as the business shifts its focus from legacy security products to advanced intelligence offerings. The IT asset management business continued to show strength in the first half with a 98% increase in revenues compared with the previous same period a year ago. The 48% decrease in maintenance and technical support was all from one legacy customer who did not renew their contract at the end of 2016. The revenue from this line item will be replaced over the next reporting periods with an anticipated increase in consulting services for the rail business and recurring maintenance revenues from new projects after the initial maintenance free period.

### Cost of Revenues

Costs of revenues were \$1,216,890 and \$1,158,368 for the six months ended June 30, 2017 and 2016, respectively. The increase in 2017 cost of the project implementation was related to increased costs for implementation of one international project with unanticipated additional travel and other expenses related to this specific project. Other increases in costs of revenues are generally in line with the increase in revenue in these categories with IT asset management services showing a slight improvement most related to economies of scale. It should be noted that the decrease in 2017 cost of the maintenance and technical support is due to the budgeted decrease in revenue.

### Gross Profit

Gross Profit was \$981,344 and \$1,493,018 for the six months ended June 30, 2017 and 2016, respectively. The overall decrease resulted primarily in the first quarter 2017 from an isolated decline in margins in the project business for reasons described previously. This decrease during the first quarter 2017 is expected to be one-time in nature and that the overall year will be in line with previous gross profit performance. The decrease in gross profit was offset by lower costs overall in the maintenance and technical support with further offset in the increase in IT asset management areas but still resulted in a reduction of 34% in overall gross margin compared to the comparative quarter in 2016. Despite more aggressive pricing in the award of a large contract that makes up much of the revenue in that business line, unanticipated expenses related to initial implementation of a new product reduced the overall gross margins compared to the previous equivalent quarter. These cost overruns are expected to be a one-time event and that gross margin percentage are anticipated to be in line with previous years going forward.

### Operating Expenses

Operating expenses for the six months ended June 30, 2017 and 2016 were \$2,617,755 and \$2,713,394 respectively, a decrease of \$95,639. This decrease in expenses was mainly due to a decrease in contract labor and selling and marketing expenses of \$300,587. However, this decrease was offset by an increase of \$204,948 because of additional professional fees and general and administration expenses related to operating as a public company, expenses related to our corporate actions including a planned up-listing to a national exchange and additional spending on resources for the research and development department by the Company.

### **Loss Before Other Income (Expense)**

The loss from operations for the six months ended June 30, 2017 and 2016 were \$1,636,411 and \$1,220,376, respectively. The increase in loss from operations in the amount of \$416,035 was due to the decrease in gross profit of \$511,674 and with an offset in less operating expenses of \$95,639.

### **Interest Expense**

Interest expense for the six months ended June 30, 2017 and 2016 was \$1,754,004 and \$282,414 respectively. The increase in interest expense was almost entirely due to non-cash charges in connection with debt discount and warrant amortization expense for bridge financing entered into in late 2016. The bridge financing costs are expected to terminate once the Company completes a planned registered equity offering and the subject financing is repaid in full.

### **Warrant derivative loss**

Warrant derivative loss for the six months ended June 30, 2017 and 2016 was \$287,327 and zero, respectively. This amount was reduced by \$295,061 as result of an increase in the stock price. This amount was primarily the result of the non-cash warrant derivative expense related to the additional funding drawn against the Company's promissory note with JMJ Financial.

### **Other Income**

Other income for the six months ended June 30, 2017 and 2016 was \$64,648 and 1,306, respectively. The increased amount in 2017 was the result of a gain on settlement of debt of \$64,647.

### **Net Loss**

The net loss for the six months ended June 30, 2017 and 2016 was \$3,613,093 and \$1,501,484, respectively. The \$2,111,609 increase in net loss is primarily attributable to the non-cash charges in 2017 of \$1,695,574 in debt discount expense and warrant derivative expense on debt related to bridge financing. Net loss applicable to Common Stock was \$3,624,933 in 2017 versus \$1,501,484 in 2016, an increase of \$2,123,449. The loss in 2017 included a charge for Preferred Stock Dividends of \$11,840. Net loss per common share was \$(1.91) and \$(0.80) for the six months ended June 30, 2017 and 2016.

### **Liquidity and Capital Resources**

Cash flows used in operating activities for the six months ended June 30, 2017 and 2016 were \$848,263 and \$1,375,845, respectively. The decrease in cash flows used in operations for the six months ended June 30, 2017 was due primarily to the non-cash warrant derivative expense and debt discount expense related to the promissory note with JMJ Financial with an offset of \$895,525 positive variance in changes in assets and liabilities.

Cash flows used in investing activities for the six months ended June 30, 2017 and 2016 were \$22,009 and \$30,143, respectively representing minimum investments in certain assets during 2017 and 2016.

Cash flows provided by financing activities for the six months ended June 30, 2017 and 2016 were \$736,999 and \$1,266,109, respectively. Cash flows from financing activities during 2017 were primarily attributable to proceeds from the draws on notes payable, partially offset by repayments of existing notes and short-term credit facilities. Cash flows from financing activities during 2016 were primarily attributable to proceeds from the draws on notes payable, partially offset by repayments of existing notes and short-term credit facilities.

Since inception, we have funded our operations primarily through the sale of our equity (or equity linked) and debt securities. As of August 11, 2017, we had cash on hand of approximately \$55,000. We have approximately \$131,000 in monthly lease and other mandatory payments, not including payroll and ordinary expenses which are due monthly.

### *Reverse Split*

Effective April 26, 2017, the Company filed an Articles of Amendment to the Articles of Incorporation of the Company (the "Amendment") to effectuate a reverse split of the Company's issued and outstanding common stock at an exchange ratio of 1-for-35 (the "Reverse Split"). As a result of the Reverse Split, every thirty-five (35) shares of the Company's issued and outstanding common stock will be converted into one (1) share of issued and outstanding common stock. The number of authorized shares will remain unchanged. No fractional shares will be issued in connection with the Reverse Split. Any fractional shares of common stock resulting from the Reverse Split will be rounded up to the nearest whole share. It is not necessary for stockholders to exchange their existing stock certificates for new stock certificates in connection with the Reverse Split. Stockholders who hold their shares in brokerage accounts are not required to take any action to exchange their shares.

The Reverse Split is being implemented by the Company in connection with an application filed to up-list the Company's common stock on the NASDAQ Capital Market ("NASDAQ"). The Reverse Split is intended to fulfill the stock price requirements for listing on NASDAQ since the requirements include, among other things, that the Company's common stock must maintain a minimum closing price per share of \$4.00 or higher for 30 of the most recent 60 trading days. There is no assurance that the Company's application to up-list the Company's common stock on NASDAQ will be approved.

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

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

The above description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the Amendment, which is attached hereto as Exhibit 3.1 to the Current Report on Form 8-K filed with U.S. Securities and Exchange Commission on April 28, 2017.

### *JMJ Financing Transaction*

On December 20, 2016, we entered a bridge financing Securities Purchase Agreement with MJM Financial, an accredited investor, for non-convertible debt financing in the amount up to \$2,500,000. Our first draw was in the amount of \$575,000 net of an OID of \$30,263. The loan agreement contemplates a series of corporate actions leading to the Company raising at least \$10 million in a registered offering. The loan is payable on the earlier of May 15, 2017 or the third business day after the closing of the Public Pursuant to the Note, the lender is obligated to provide the Company an additional \$925,000 advance under the Note in tranches, as certain milestones, contained within the Note, are achieved. The lender may make further advances of up to \$1,000,000 (\$875,000 after deduction for original issue discounts for the entire \$2.5M note) under the Note, in such amounts and at such times as the Parties may agree. The Company has drawn \$1,025,000 during the first half after achieving scheduled milestones against the \$1,500,000 available amount as of June 30, 2017 including \$150,000 related to favorable settlement on an existing debt obligation that was in default. Although the note is not convertible per se, if the Company fails to repay the balance due under the Note when due, the lender has the right to convert all or any portion of the outstanding Note into shares of Common Stock, subject to the terms and conditions set forth in the Note. All amounts due under the Note become immediately due and payable upon the occurrence of an event of default as set forth in the Note.

On January 25, 2017, the Company borrowed an additional \$157,895 and received a net amount of \$130,500 representing the second draw against the Securities Purchase agreement with MJM Financial. Warrants in the amount of 30,075 were issued as per the agreement.

On February 8, 2017, the Company borrowed an additional \$105,263 and received a net amount of \$87,000 representing the third draw against the Securities Purchase agreement with MJM Financial. Warrants in the amount of 20,050 were issued as per the agreement.

On February 27, 2017, the Company borrowed an additional \$263,158 and received a net amount of \$217,500 representing the fourth draw against the Securities Purchase agreement with MJM Financial. Warrants in the amount of 50,138 were issued as per the agreement.

On March 6, 2017, the Company borrowed an additional \$157,895 and received a net amount of \$130,500 representing the fifth draw against the Securities Purchase agreement with JMJ Financial. Warrants in the amount of 30,075 were issued as per the agreement.

On March 14, 2017, the Company borrowed an additional \$263,158 and received a net amount of \$217,500 representing the sixth draw against the Securities Purchase agreement with JMJ Financial. Warrants in the amount of 50,138 were issued as per the agreement.

On April 25, 2017, the Company borrowed an additional \$78,947 and received a net amount of \$65,250 representing the seventh draw against the Securities Purchase agreement with JMJ Financial. Warrants in the amount of 15,038 were issued as per the agreement.

On June 1, 2017, the Company borrowed an additional \$105,263 and received a net amount of \$87,000 representing the eighth draw against the Securities Purchase agreement with JMJ Financial. Warrants in the amount of 20,050 were issued as per the agreement.

On June 27, 2017, the Company borrowed an additional \$105,263 and received a net amount of \$87,000 representing the ninth draw against the Securities Purchase agreement with JMJ Financial. Warrants in the amount of 20,050 were issued as per the agreement.

On May 15, 2017, the Company was obligated to repay the principal due to JMJ Financial under the Note totaling \$1,627,632. On May 22, 2017, the Company and JMJ Financial entered into an Amendment #1 to the Securities Purchase Agreement and to the Note ("Amendment No. 1"). This Amendment No. 1 extended the original maturity date for the Note from May 15, 2017 to June 15, 2017 and extended the date on which the Origination Shares (as defined in the SPA) are to be issued from May 30, 2017 to June 15, 2017. Pursuant to Amendment No. 1, on June 15, 2017, the Company was obligated to repay the principal due to JMJ Financial under the Note totaling \$1,627,632.

On July 12, 2017, the Company and JMJ Financial entered into an Amendment #2 to the Securities Purchase Agreement and to the Note ("Amendment No. 2"). This Amendment No. 2 extended the original maturity date for the Note from June 15, 2017 to July 31, 2017 and extended the date on which the Origination Shares are to be issued from June 15, 2017 to July 31, 2017.

On August 14, 2017, the Company obtained an amendment #3 to the Securities Purchase Agreement ("SPA") and the \$2,500,000 Promissory Note ("Note"). This amendment extended the original Maturity Date for the Promissory Note from July 31, 2017 to August 31, 2017 ("Extended Maturity Date") and extended the Origination Shares issuance date in the Stock Purchase Agreement from May 30, 2017 to August 31, 2017.

Pursuant to Amendment No. 3, JMJ Financial conditionally waived the defaults for the Company's failure to meet the original maturity date of the Note and delivery date for the Origination Shares. JMJ Financial waived any damages, fees, penalties, liquidated damages, or other amounts or remedies otherwise resulting from such defaults in accordance with Amendment No. 3, and such conditional waiver is conditioned on the Company not being in default of and not breaching any term of the Note or the SPA or any other transaction document at any time subsequent to the date of Amendment No. 3. If the Company triggers an event of default or breaches any term of the Note, the SPA, or the transaction documents at any time subsequent to the date of Amendment No. 3, JMJ Financial may issue a notice of default for the Company's failure to meet the original maturity date of the Note and original delivery date of the Origination Shares.

#### *Letter Agreement for Conversion of Promissory Notes*

On June 9, 2017, the Company entered into letter agreements (together the "Note Holder Letter Agreements") with six investors (collectively, the "Note Holders") holding promissory notes (collectively the "Notes") whereby the Note Holders agreed to convert all monies due to them under the Notes into restricted shares of common stock (the "Note Conversion Shares"), all contingent upon the completion of the Company's anticipated public offering of its securities to raise up to \$12,500,000 and list its securities on the NASDAQ (the "Offering"). The Note Holders will be due the aggregate sum of \$573,224, including principal and interest calculated through June 30, 2017 (the "Note Obligation"). Pursuant to the Note Holder Letter Agreements, the Note Obligation will automatically convert upon consummation of the Offering into the Note Conversion Shares at the price per share of common stock paid by the investors in the offering (the "Conversion Price"). As a result of the foregoing, the Company will be issuing an aggregate of 114,645 Note Conversion Shares upon the consummation of the Offering in consideration of the conversion of the Note Obligation assuming a conversion price of \$5.00, the mid-point of the estimated offering price range. The Company anticipates amending the Note Holder Letter Agreements to issue to the Note Holders an aggregate of 114,645 warrants upon the consummation of the Offering. Each entity entering into the Note Holder Letter Agreements has agreed to enter into lock-up agreements prohibiting the sale or other transfer of any securities of the Company owned by such persons for a period of between 3 and 6 months.

### *Letter Agreement for Related Party Conversion*

On June 9, 2017, the Company entered into a letter agreement with Mr. Gianni Arcaini, the Chief Executive Officer and a Director of the Company (the "Arcaini Letter Agreement"), whereby Mr. Arcaini agreed to convert all deferred compensation owed to him under his Employment Agreement ("Arcaini Debt Obligation") into common stock of the Company, contingent upon the completion of the Offering. The aggregate amount of \$700,543 ("Arcaini Obligation") will be owed to Mr. Arcaini under the Arcaini Debt Obligation including interest through June 30, 2017. Pursuant to the Arcaini Letter Agreement, the Arcaini Debt Obligation will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the Arcaini Debt Obligation by \$5.00 or 140,109 shares. The Company anticipates amending the Arcaini Letter Agreement to issue Mr. Arcaini 140,109 warrants upon the consummation of the Offering. Mr. Arcaini has agreed to enter into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by him for a period of 6 months.

Additionally, on the same date, the Company entered into a letter agreement with Mr. Adrian Goldfarb, the Chief Financial Officer of the Company (the "Goldfarb Letter Agreement"), whereby Mr. Goldfarb agreed to convert all amounts due and owing to him under that certain promissory note issued by the Company ("Goldfarb Debt Obligation") into common stock of the Company, contingent upon the completion of the Offering. The aggregate amount of \$33,620 ("Goldfarb Obligation") will be owed to Mr. Goldfarb under the Goldfarb Debt Obligation including interest through June 30, 2017. Pursuant to the Goldfarb Letter Agreement, the Goldfarb Debt Obligation will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the Goldfarb Debt Obligation by \$5.00 or 6,724 shares. The Company anticipates amending the Goldfarb Letter Agreement to issue Mr. Goldfarb 6,724 warrants upon consummation of the Offering. Mr. Goldfarb has agreed to enter into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by him for a period of 6 months.

The above descriptions of the Note Holder Letter Agreements, Arcaini Letter Agreement and Goldfarb Letter Agreement (collectively, the "Agreements") do not purport to be complete and are qualified in their entirety by reference to the Agreements, which are Exhibit 10.1, Exhibit 10.2 and Exhibit 10.3 to the Current Report on Form 8-K filed on June 15, 2017.

### *GPB Debt Holdings II, LLC Letter Agreement*

On August 1, 2017, the Company entered into a letter agreement with GPB Debt Holdings II LLC ("GPB"), whereby GPB agreed to convert \$212,077.36 due and owing to it under that certain senior secured note issued by the Company on April 1, 2016 ("GPB Debt Obligation") into common stock of the Company, contingent upon the completion of the Offering (the "GPB Letter Agreement"). Pursuant to the GPB Letter Agreement, the GPB Debt Obligation will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the GPB Debt Obligation by the price per share of common stock paid by the investors in the Offering. GPB has agreed to enter into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by him for a period of 6 months.

Pursuant to the terms and conditions of the Note, the Company shall continue to make its monthly interest payments beginning on September 1, 2017 with a payment of \$63,632.69 representing July 2017, August 2017 and September 2017 interest payments and payments thereafter until the Maturity Date. On the Maturity Date (as defined in the Note), GPB shall have the right, but not the obligation, to "put" to the Company any Conversion Shares issued to GPB pursuant to the Automatic Conversion that have not been sold for redemption in cash, in the amount equal to the number of such put Conversion Shares multiplied by the Conversion Price, payable within five days of the Company's receipt of written notice indicating such election by GPB. Additionally, GPB will also be issued warrants, on the same terms and in substantially the same form offered to investors in the Offering (the "Warrants"), except that such Warrants will be restricted securities, and will not trade on the OTC Markets OTCQB.

Because of the growing nature of the business, we project that we will need additional capital to fund operations over the next 12 months. We anticipate we will need an additional \$3,000,000 for the year of 2017, which we anticipate will be funded through equity instruments related to the anticipated \$11 million registered offering previously described.

On a long-term basis, our liquidity is dependent on continuation and expansion of operations, receipt of revenues, and additional infusions of capital. Our current capital and revenues are insufficient to fund such expansion. If we choose to launch such an expansion campaign, we will require substantially more capital. The funds raised from any future offering will also be used to market our products and services as well as contribute to existing working capital needs.

Demand for the products and services will be dependent on, among other things, market acceptance of our products and services, the technology market in general, and general economic conditions, which are cyclical in nature. In as much as a major portion of our activities is the receipt of revenues from the sales of our products and services, our business operations may be adversely affected by our competitors and prolonged recession periods.

Our auditor has expressed substantial doubt regarding our ability to continue as a going concern. Management is unable to predict if and when we will be able to generate positive cash flow. Our plan regarding these matters is to raise additional debt and/or equity financing to allow us the ability to cover our current cash flow requirements and meet our obligations as they become due. There can be no assurances that financing will be available or if available, that such financing will be available under favorable terms. If we are unable to generate adequate revenues to cover expenses and cannot obtain additional financing soon, we may seek protection under bankruptcy laws.

### **Off Balance Sheet Arrangements**

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

### **Critical Account Policies**

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

### **Revenue Recognition and Contract Accounting**

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

#### **Project Revenue**

The Company constructs intelligent technology systems consisting of materials and labor under customer contracts. Revenues and related costs on project revenue are recognized using the "percentage of completion method" of accounting in accordance with ASC 605-35, "Construction-Type and Production-Type Contracts". Under this method, contract revenues are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. 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 "costs and estimated earnings in excess of billings on uncompleted contracts". Any billings of customers in excess of recognized revenues are recorded as a liability in "billings in excess of costs and estimated earnings on uncompleted contracts". However, in the event a loss on a contract is foreseen, the Company will recognize the loss when such loss is determined.

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

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

#### **Maintenance and Technical Support**

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

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



## **IT Asset Management Services**

The Company recognizes revenue from its IT asset management business in accordance with the Securities and Exchange Commission (the "SEC") Staff Accounting Bulletin No. 104, "Revenue Recognition" and Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 985-605-25 which addresses Revenue Recognition for the software industry. The general criteria for revenue recognition under ASC 985-605 for our Company, which sells software licenses, which do not require any significant modification or customization, is that revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

The Company's IT asset management business generates revenues from three sources: (1) Professional Services (consulting and auditing); (2) Software licensing with optional hardware sales and (3) Customer Service (training and maintenance support).

For sales arrangements that do not involve multiple elements:

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

## **Multiple Elements**

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

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

## **Deferred Revenue**

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

## **Accounts Receivable**

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

## **Share-Based Compensation**

Stock-based compensation is accounted for in accordance with the Share-Based Payment Topic of ASC 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the shorter of the period the employee or director is required to perform the services in exchange for the award or the vesting period. The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date". The expense is recognized over the service period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date.

## **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The most significant estimates in the accompanying unaudited consolidated financial statements include the allowance on accounts receivable, valuation of deferred tax assets, valuation of assets acquired and liabilities assumed in business combinations, valuation of intangible and other long-lived assets, estimates of percentage completion on projects and related revenues, valuation of stock-based compensation, valuation of derivatives, valuation of warrants issued with debt, valuation of beneficial conversion features in convertible debt, valuation of stock-based awards and valuation of loss contingencies. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The information to be reported under this item is not required of smaller reporting companies.

## **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 has 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 second quarter ended June 30, 2017 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.

#### *Greentree Financial Group, Inc. Lawsuit*

On May 12, 2016, a complaint was filed against the Company in the Circuit Court for the Seventeenth Judicial Circuit in and for Broward County, Florida (the "Circuit Court") by Greentree Financial Group, Inc. as plaintiff ("Greentree"). Greentree, the holder of two convertible promissory notes in the principal amount of \$50,000 and \$46,975 (the "Notes"), alleged that the Company was in default for failure to make scheduled principal and interest payments and failing to convert a portion of the Notes into the Company's common stock. On May 23, 2016, we filed a counterclaim in the Circuit Court against Greentree alleging, amongst other claims, that the officers and directors of Greentree failed to disclose certain facts with respect to their past conduct, which, had the Company known, would have made it unlikely that the Company would have entered into the debt financing transaction issuing the Notes. On January 23, 2017, the Company executed a settlement agreement with Greentree resolving the pending lawsuit with respect to the Notes (the "Settlement Agreement"). The terms of the Settlement Agreement include payment by the Company to Greentree in the amount of \$150,000 due within 45 days of execution thereof and resolves all outstanding obligations related to the Notes (the "Payment"). The Payment was made by the Company to Greentree on March 7, 2017. On March 24, 2017, the Company received an Agreed Final Order of Dismissal from the Court dismissing the Greentree Matter with prejudice.

#### *FacilityTeam Lawsuit*

On December 12, 2016, the Company was notified that it was in breach of settlement with a previous vendor, FacilityTeam based in in Ontario, Canada alleging failure to make certain payments in accordance with such settlement. On December 28, 2016, the Company agreed to a modified payment schedule as part of a post judgement settlement for the amounts due and owing. On March 7, 2017, the final settlement payment was made by the Company to FacilityTeam.

Except as disclosed above, 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 of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

#### *Dispute with Former Employee*

On or about February 15, 2017, the Company received a Notice of Filing of Complaint of Discrimination filed by a former employee of the Company that had been terminated for insubordination. The Company received notice in late April 2017 from the Florida Commission on Human Relations with a determination of no reasonable cause exists to believe that an unlawful practice occurred.

### Item 1A. Risk Factors.

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Amended Registration Statement on Form S-1, filed with the U.S Securities and Exchange Commission on July 14, 2017.

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

Except as disclosed below, there were no unregistered sales of the Company's equity securities during second quarter 2017 that were not previously disclosed in reports filed with the SEC.

On January 1, 2017, the Company issued 794 shares of common stock to a consultant for services rendered to the Company.

On January 25, 2017, the Company issued common stock purchase warrants to an investor in connection with a debt financing transaction (the “Financing Warrants”). The Financing Warrants are exercisable into 30,075 shares of the Company’s common stock at an aggregate exercise amount of \$157,895. On the same date, the Company issued additional common stock purchase warrants to a placement agent for fees in connection with the debt financing transaction (the “Additional Financing Warrants”). The Additional Financing Warrants are exercisable into 2,406 shares of the Company’s common stock at an aggregate exercise amount of \$12,632.

On February 1, 2017, the Company issued 1,429 shares of common stock to a consultant for services rendered to the Company.

On February 8, 2017, the Company issued common stock purchase warrants to an investor in connection with a debt financing transaction (the “Financing Warrants”). The Financing Warrants are exercisable into 20,050 shares of the Company’s common stock at an aggregate exercise amount of \$105,263. On the same date, the Company issued additional common stock purchase warrants to a placement agent for fees in connection with the debt financing transaction (the “Additional Financing Warrants”). The Additional Financing Warrants are exercisable into 1,604 shares of the Company’s common stock at an aggregate exercise amount of \$8,421.

On February 27, 2017, the Company issued common stock purchase warrants to an investor in connection with a debt financing transaction (the “Financing Warrants”). The Financing Warrants are exercisable into 50,138 shares of the Company’s common stock at an aggregate exercise amount of \$263,158. On the same date, the Company issued additional common stock purchase warrants to a placement agent for fees in connection with the debt financing transaction (the “Additional Financing Warrants”). The Additional Financing Warrants are exercisable into 3,997 shares of the Company’s common stock at an aggregate exercise amount of \$20,984.

On March 1, 2017, the Company issued 680 shares of common stock to a consultant for services rendered to the Company.

On March 6, 2017, the Company issued common stock purchase warrants to an investor in connection with a debt financing transaction (the “Financing Warrants”). The Financing Warrants are exercisable into 30,075 shares of the Company’s common stock at an aggregate exercise amount of \$157,895. On the same date, the Company issued additional common stock purchase warrants to a placement agent for fees in connection with the debt financing transaction (the “Additional Financing Warrants”). The Additional Financing Warrants are exercisable into 2,406 shares of the Company’s common stock at an aggregate exercise amount of \$12,632.

On March 14, 2017, the Company issued common stock purchase warrants to an investor in connection with a debt financing transaction (the “Financing Warrants”). The Financing Warrants are exercisable into 50,138 shares of the Company’s common stock at an aggregate exercise amount of \$263,158. On the same date, the Company issued additional common stock purchase warrants to a placement agent for fees in connection with the debt financing transaction (the “Additional Financing Warrants”). The Additional Financing Warrants are exercisable into 3,997 shares of the Company’s common stock at an aggregate exercise amount of \$20,894.

On April 25, 2017, the Company issued common stock purchase warrants to an investor in connection with a debt financing transaction (the “Financing Warrants”). The Financing Warrants are exercisable into 15,038 shares of the Company’s common stock at an aggregate exercise amount of \$78,947. On the same date, the Company issued additional common stock purchase warrants to a placement agent for fees in connection with the debt financing transaction (the “Additional Financing Warrants”). The Additional Financing Warrants are exercisable into 1,203 shares of the Company’s common stock at an aggregate exercise amount of \$6,316.

On June 1, 2017, the Company issued common stock purchase warrants to an investor in connection with a debt financing transaction (the “Financing Warrants”). The Financing Warrants are exercisable into 20,050 shares of the Company’s common stock at an aggregate exercise amount of \$105,263. On the same date, the Company issued additional common stock purchase warrants to a placement agent for fees in connection with the debt financing transaction (the “Additional Financing Warrants”). The Additional Financing Warrants are exercisable into 1,604 shares of the Company’s common stock at an aggregate exercise amount of \$8,421.

On June 27, 2017, the Company issued common stock purchase warrants to an investor in connection with a debt financing transaction (the “Financing Warrants”). The Financing Warrants are exercisable into 20,050 shares of the Company’s common stock at an aggregate exercise amount of \$105,263. On the same date, the Company issued additional common stock purchase warrants to a placement agent for fees in connection with the debt financing transaction (the “Additional Financing Warrants”). The Additional Financing Warrants are exercisable into 1,604 shares of the Company’s common stock at an aggregate exercise amount of \$8,421.

The preceding securities were issued in reliance upon the exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933 (the “Securities Act”) and Rule 506(b) promulgated there under. The above issuances of securities qualified for exemption under Section 4(a)(2) of the Securities Act. The securities were exempt from registration under Section 4(a)(2) of the Securities Act because the issuance of such securities by the Company did not involve a “public offering,” as defined in Section 4(a)(2) of the Securities Act, due to the insubstantial number of persons involved in the transaction, size of the offering, and manner of the offering and number of securities offered. The Company did not undertake an offering in which it sold a high number of securities to a high number of investors. In addition, the investor had the necessary investment intent as required by Section 4(a)(2) of the Securities Act since they agreed to, and received, the securities bearing a legend stating that such securities are restricted pursuant to Rule 144 of the Securities Act. This restriction ensures that these securities would not be immediately redistributed into the market and therefore not be part of a “public offering.” Based on an analysis of the above factors, the Company has met the requirements to qualify for exemption under Section 4(a)(2) of the Securities Act.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
<a href="#"><u>3.1</u></a>	Articles of Amendment to Articles of Incorporation (incorporated herein by reference to the Current Report on Form 8-K filed as Exhibit 3.1 with the U.S. Securities and Exchange Commission on April 28, 2017)
<a href="#"><u>10.1</u></a>	Form of Note Holder Letter Agreement, dated June 9, 2017 (incorporated herein by reference to the Current Report on Form 8-K filed as Exhibit 10.1 with the U.S. Securities and Exchange Commission on June 15, 2017)
<a href="#"><u>10.2</u></a>	Form of Arcaini Letter Agreement, dated June 9, 2017 (incorporated herein by reference to the Current Report on Form 8-K filed as Exhibit 10.2 with the U.S. Securities and Exchange Commission on June 15, 2017)
<a href="#"><u>10.3</u></a>	Form of Goldfarb Letter Agreement, dated June 9, 2017 (incorporated herein by reference to the Current Report on Form 8-K filed as Exhibit 10.3 with the U.S. Securities and Exchange Commission on June 15, 2017)
<a href="#"><u>10.4</u></a> *	GPB Debt Holdings II, LLC Letter Agreement, dated August 1, 2017
<a href="#"><u>10.5</u></a> *	Amendment #1 to the Securities Purchase Agreement and to the Note, dated May 22, 2017
<a href="#"><u>10.6</u></a> *	Amendment #2 to the Securities Purchase Agreement and to the Note, dated July 12, 2017
<a href="#"><u>10.7</u></a> *	Amendment #3 to the Securities Purchase Agreement and to the Note, dated August 14, 2017
<a href="#"><u>10.8</u></a>	Form of Investor Warrant (incorporated herein by reference to the registration statement on Form S-1 filed as Exhibit 10.9 with the U.S. Securities and Exchange Commission on July 14, 2017)
<a href="#"><u>10.9</u></a>	Form of Warrant Agency Agreement (incorporated herein by reference to the registration statement on Form S-1 filed as Exhibit 10.10 with the U.S. Securities and Exchange Commission on July 14, 2017)
<a href="#"><u>31.1</u></a> *	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)).
<a href="#"><u>31.2</u></a> *	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)).

<a href="#"><u>32.1</u></a> *	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.
<a href="#"><u>32.2</u></a> *	Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

**SIGNATURES**

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

**DUOS TECHNOLOGIES GROUP, INC.**

Date: August 15, 2017

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

Date: August 15, 2017

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



August 1, 2017

GPB Debt Holdings II, LLC  
535 West 24<sup>th</sup> Street, Floor 4  
New York, New York 10011

*VIA ELECTRONIC MAIL*

**Re: Letter Agreement to Convert Portion of Senior Secured Note**

Dear Mr. Myrianthopoulos:

You are being sent this letter as GPB Debt Holdings II, LLC is currently the holder (the "Holder" or "you") of that certain senior secured note in the original principal amount of \$1,800,000 issued on April 1, 2016 (attached hereto as Exhibit A, the "Note") by Duos Technologies Group, Inc., a Florida corporation (the "Company"), pursuant to which you are owed (i) remaining principal in the amount of \$1,800,000 (the "Principal Payment Obligation"), (ii) accrued interest of \$21,105 through July 31, 2017, and (iii) interest payments through April 1, 2019 calculated based on the Principal Payment Obligation.

**Our Current Financing**

The Company was in the process of pursuing a public offering of its securities to raise up to \$12,500,000 and list its securities onto the NASDAQ, which is being led by Joseph Gunnar & Co (the "Underwriter") and filed a registration statement on Form S-1. The Company has since revised its near-term strategy to raise a minimum of \$5,000,000 in a public offering but remain listed on the OTC Markets OTCQB (the "Offering"). Therefore, the Company is contacting you to inform you of such changes to the Offering and hereby requests that you convert a portion of the Principal Payment Obligation, in the amount of \$212,077.36 (the "Conversion Amount"), into common stock of the Company pursuant to the terms and conditions described herein.

**What We Need From You**

By executing and delivering this letter, you will hereby agree to automatically convert, contingent upon and at the time of closing of the Offering (the "Automatic Conversion"), the Conversion Amount into shares of common stock (the "Conversion Shares") of the Company at a conversion price equal to the price per share of common stock paid by the investors in the Offering (the "Conversion Price"). Pursuant to the terms and conditions of the Note, the Company shall continue to make its monthly interest payments as set forth on Schedule 1 hereto, beginning on September 1, 2017 with a payment of \$63,632.69 representing July 2017, August 2017 and September 2017 interest payments and payments thereafter according to Schedule 1 until the Maturity Date. Notwithstanding the foregoing, on the Maturity Date (as defined in the Note), you shall have the right, but not the obligation, to "put" to the Company any Conversion Shares issued to you pursuant to the Automatic Conversion that have not been sold for redemption in cash, in the amount equal to the number of such put Conversion Shares multiplied by the Conversion Price, payable within five days of the Company's receipt of written notice indicating such election by the Holder. Additionally, you will also be issued warrants, on the same terms and in substantially the same form offered to investors in the Offering (the "Warrants"), except that such Warrants will be restricted securities, and will not trade on the OTC Markets OTCQB. Upon the triggering of the Automatic Conversion, the Company shall send you prompt written notice (the "Automatic Conversion Notice") specifying the Conversion Price and date upon which such conversion





was effective (the "Effective Date") together with a new Note reflecting the terms of the old Note, except to the extent such terms have been modified by this letter. The Automatic Conversion Notice will also contain instructions on surrendering to the Company your original Note; provided, however, the Automatic Conversion shall be effective on the Effective Date. For the avoidance of doubt, whether or not you surrender the original Note, such original Note shall be null and void upon execution of a new Note satisfactory to both you and the Company. The Company shall provide a draft new Note for your review and execution no less than 72 hours in advance of the Automatic Conversion Notice.

Additionally, in connection with the Automatic Conversion, you executed and delivered, as a condition to the Company's issuance and delivery of the shares of common stock underlying the Automatic Conversion, a lock-up agreement prohibiting the sale or other transfer of securities that you own in the Company for a period of six (6) months beginning on the date of the closing of the Offering, in form and substance reasonably required by the Underwriter. The foregoing lock up letter will remain in full force and effect in connection with the Offering through September 30, 2017.

By signing below, this Letter Agreement shall serve as written confirmation that you have reviewed this Letter Agreement (and consulted with your legal and tax advisors to the extent you deemed necessary) and agree to the terms and conditions of the Automatic Conversion at the Conversion Price as described herein. Notwithstanding anything contained herein, in the event the Offering is not consummated on or before ninety (90) days from the date hereof, this Letter Agreement will terminate and shall be of no further force and effect.

This Letter Agreement, together with the Note, contains the entire understanding between and among the parties and supersedes any prior understandings and agreements among them respecting the subject matter of this Letter Agreement. This Letter Agreement shall be governed by and construed in accordance with the laws of the State of Florida without regard to choice of law principles. This Letter Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument. In case any provision of this Letter Agreement shall be held to be invalid, illegal or unenforceable, such provision shall be severable from the rest of this Letter Agreement, and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

The parties hereby consent and agree that if this Letter Agreement shall at any time be deemed by the parties for any reason insufficient, in whole or in part, to carry out the true intent and spirit hereof or thereof, the parties will execute or cause to be executed such other and further assurances and documents as in the reasonable opinion of the parties may be reasonably required in order more effectively to accomplish the purposes of this Letter Agreement.

\*\*\*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK\*\*\*

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Please indicate confirmation of the terms provided herein by executing and returning this letter in the space provided below.

Very truly yours,

**DUOS TECHNOLOGIES GROUP, INC.**

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

**ACCEPTED AND AGREED:**

**GPB DEBT HOLDINGS II, LLC**

By: /s/ Evan Myriantopoulos  
Name: Evan Myriantopoulos  
Title: Managing Partner

\*\*\*SIGNATURE PAGE TO LETTER AGREEMENT \*\*\*

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**SCHEDULE I**

Interest Payment Amount	Date of Payment
\$63,632.69(1)	September 1, 2017
\$21,281.64	October 1, 2017
\$21,317.11	November 1, 2017
\$21,352.64	December 1, 2017
\$21,388.22	January 1, 2018
\$21,000.00(2)	February 1, 20 18
\$21,035.00	March 1, 2018
\$21,070.06	April 1, 2018(3)

- (1) The September 1, 2017 interest payment amount includes the aggregate amount of monthly interest payments for July 1, 2017 in the amount of 21,175.58, August 1, 2017 in the amount of \$21,210.88, and September 1, 2017 in the amount of \$21,246.23.
- (2) The Company will also remit the additional interest accrued of \$36,331.84 for 2017 by January 1, 2018 in accordance with the loan terms.
- (3) The Company will continue to make monthly interest payments each month thereafter in accordance with the loan terms.

528 Debt Holdings II, LP Senior Secured Convertible Note: \$1,300,000				
Duos Technology Interest Schedule				
Payment Due Date	Monthly Cash Interest Due	Add'l Interest Accrued	Total Payment Due	
4/1/2016	\$ -	\$ -	\$ -	
7/1/2017	\$ 21,175.58	\$ 18,075.17	\$ 21,175.58	
8/1/2017	\$ 21,210.88	\$ 21,105.29	\$ 21,210.88	
9/1/2017	\$ 21,246.23	\$ 24,140.47	\$ 21,246.23	
10/1/2017	\$ 21,281.64	\$ 27,180.70	\$ 21,281.64	
11/1/2017	\$ 21,317.11	\$ 30,226.00	\$ 21,317.11	
12/1/2017	\$ 21,352.64	\$ 33,276.38	\$ 21,352.64	
1/1/2018	\$ 21,388.22	\$ 36,331.84	\$ 57,720.06	
2/1/2018	\$ 21,000.00	\$ 3,000.00	\$ 21,000.00	
3/1/2018	\$ 21,035.00	\$ 6,005.00	\$ 21,035.00	
4/1/2018	\$ 21,070.06	\$ 9,015.01	\$ 21,070.06	
5/1/2018	\$ 21,105.18	\$ 12,030.03	\$ 21,105.18	
6/1/2018	\$ 21,140.35	\$ 15,050.08	\$ 21,140.35	
7/1/2018	\$ 21,175.58	\$ 18,075.17	\$ 21,175.58	
8/1/2018	\$ 21,210.88	\$ 21,105.29	\$ 21,210.88	
9/1/2018	\$ 21,246.23	\$ 24,140.47	\$ 21,246.23	
10/1/2018	\$ 21,281.64	\$ 27,180.70	\$ 21,281.64	
11/1/2018	\$ 21,317.11	\$ 30,226.00	\$ 21,317.11	
12/1/2018	\$ 21,352.64	\$ 33,276.38	\$ 21,352.64	
1/1/2019	\$ 21,388.22	\$ 36,331.84	\$ 57,720.06	
2/1/2019	\$ 21,000.00	\$ 3,000.00	\$ 21,000.00	
3/1/2019	\$ 21,035.00	\$ 6,005.00	\$ 21,035.00	
4/1/2019	\$ 21,070.06	\$ 9,015.01	\$ 21,070.06	

amounts to be paid in total on 9/1/17

these amounts to be paid 1/1/18 (\$57,720.06) resumes per this schedule

EXHIBIT A  
SENIOR SECURED NOTE

Attached.

**AMENDMENT #1**  
TO THE SECURITIES PURCHASE AGREEMENT AND TO  
THE \$2,500,000 PROMISSORY NOTE

This Amendment #1, dated May 22, 2017 (this “Amendment”), is by and between Duos Technologies Group, Inc., a Florida corporation (the “Issuer”) and JMJ Financial (the “Investor”) (referred to collectively herein as the “Parties”)

WHEREAS, the Issuer and the Investor entered into a Securities Purchase Agreement Document SPA-12202016 (the “SPA”) dated as of December 20, 2016, pursuant to which the Issuer issued to the Investor a \$2,500,000 Promissory Note (the “Note”), a Warrant, and Origination Shares (All capitalized terms not otherwise defined herein shall have the meanings given such terms in the SPA).

NOW, THEREFORE, the Issuer and the Investor agree to amend the SPA and the Note as follows:

1. Extension of Maturity Date. In the sentence in the Note that states “The Maturity Date is the earlier of May 15, 2017 or the third business day after the closing of the Public Offering,” the date of May 15, 2017 shall be replaced with the date of June 15, 2017 (the “Extended Maturity Date”).
2. Extension of Origination Shares Dates. The reference to the date of May 30, 2017 in Section 1.3.1 of the SPA shall be replaced with the date of June 15, 2017 and the reference to the date of May 15, 2017 in Section 1.3.2 of the SPA shall be replaced with the date of June 15, 2017.
3. Conditional Waiver of Default. The Investor conditionally waives the defaults for the Issuer's failure to meet the original Maturity Date of the Note and delivery date for the Origination Shares, and the Investor waives any damages, fees, penalties, liquidated damages, or other amounts or remedies otherwise resulting from such defaults through the Extended Maturity Date, with such conditional waiver conditioned on the Issuer's not being in default of and not breaching any term of the Note or the SPA or any other Transaction Document at any time subsequent to the date of this Amendment (if the Issuer triggers an event of default or breaches any term of the Note, the SPA, or the Transaction Documents at any time subsequent to the date of this Amendment, the Investor may issue a notice of default for the Issuer's failure to meet the original Maturity Date of the Note and delivery date of the Origination Shares).

ALL OTHER TERMS AND CONDITIONS OF THE SPA AND THE NOTE REMAIN IN FULL FORCE AND EFFECT.

Please indicate acceptance and approval of this Amendment by signing below:

/s/ Gianni Arcaini  
Gianni Arcaini  
Duos Technologies Group, Inc.  
Chief Executive Officer

/s/ Justin Keener  
JMJ Financial  
Its Principal

**AMENDMENT #2**  
TO THE SECURITIES PURCHASE AGREEMENT AND TO  
THE \$2,500,000 PROMISSORY NOTE

This Amendment #2, dated July 12, 2017 (this "Amendment"), is by and between Duos Technologies Group, Inc., a Florida corporation (the "Issuer") and JMJ Financial (the "Investor") (referred to collectively herein as the "Parties")

WHEREAS, the Issuer and the Investor entered into a Securities Purchase Agreement Document SPA-12202016 (the "SPA") dated as of December 20, 2016, pursuant to which the Issuer issued to the Investor a \$2,500,000 Promissory Note (the "Note"), a Warrant, and Origination Shares (All capitalized terms not otherwise defined herein shall have the meanings given such terms in the SPA); and

WHEREAS, the Issuer and the Investor previously entered into Amendment #1 to the SPA and the Note dated May 22, 2017 extending the Maturity Date of the Note and the date for delivery of the Origination Shares (all references in this Amendment to the SPA or to the Note shall refer to the SPA and the Note as previously amended).

NOW, THEREFORE, the Issuer and the Investor agree to amend the SPA and the Note as follows:

1. Extension of Maturity Date. In the sentence in the Note that states "The Maturity Date is the earlier of June 15, 2017 or the third business day after the closing of the Public Offering," the date of June 15, 2017 shall be replaced with the date of July 31, 2017.
2. Extension of Origination Shares Dates. The references to the date of June 15, 2017 in Sections 1.3.1 and 1.3.2 of the SPA shall be replaced with the date of July 31, 2017.
3. Conditional Waiver of Default. The Investor conditionally waives the defaults for the Issuer's failure to meet the original and previously amended Maturity Date of the Note and delivery date for the Origination Shares, but the Investor does not waive any damages, fees, penalties, liquidated damages, or other amounts or remedies otherwise resulting from such defaults (which damages, fees, penalties, liquidated damages, or other amounts or remedies the Investor may choose in the future to assess, apply or pursue in its sole discretion) and the Investor's conditional waiver is conditioned on the Issuer's not being in default of and not breaching any term of the Note or the SPA or any other Transaction Documents at any time subsequent to the date of this Amendment (if the Issuer triggers an event of default or breaches any term of the Note, the SPA, or the Transaction Documents at any time subsequent to the date of this Amendment, the Investor may issue a notice of default for the Issuer's failure to meet the original Maturity Date of the Note and delivery date of the Origination Shares.

ALL OTHER TERMS AND CONDITIONS OF THE SPA AND THE NOTE REMAIN IN FULL FORCE AND EFFECT.

Please indicate acceptance and approval of this Amendment by signing below:

/s/ Gianni Arcaini  
Gianni Arcaini  
Duos Technologies Group, Inc.  
Chief Executive Officer

/s/ Justin Keener  
JMJ Financial  
Its Principal

**AMENDMENT #3**  
TO THE SECURITIES PURCHASE AGREEMENT AND TO  
THE \$2,500,000 PROMISSORY NOTE

This Amendment #3, dated August 14, 2017 (this "Amendment"), is by and between Duos Technologies Group, Inc., a Florida corporation (the "Issuer") and JMJ Financial (the "Investor") (referred to collectively herein as the "Parties")

WHEREAS, the Issuer and the Investor entered into a Securities Purchase Agreement Document SPA-12202016 (the "SPA") dated as of December 20, 2016, pursuant to which the Issuer issued to the Investor a \$2,500,000 Promissory Note (the "Note"), a Warrant, and Origination Shares (All capitalized terms not otherwise defined herein shall have the meanings given such terms in the SPA);

WHEREAS, the Issuer and the Investor previously entered into Amendment #1 to the SPA and the Note dated May 22, 2017 extending the Maturity Date of the Note and the date for delivery of the Origination Shares; and

WHEREAS, the Issuer and the Investor previously entered into Amendment #2 to the SPA and the Note dated July 12, 2017 further extending the Maturity Date of the Note and the date for delivery of the Origination Shares (all references in this Amendment to the SPA or to the Note shall refer to the SPA and the Note as previously amended).

NOW, THEREFORE, the Issuer and the Investor agree to amend the SPA and the Note as follows:

1. Extension of Maturity Date. In the sentence in the Note that states "The Maturity Date is the earlier of July 31, 2017 or the third business day after the closing of the Public Offering," the date of July 31, 2017 shall be replaced with the date of August 31, 2017.
2. Extension of Origination Shares Dates. The references to the date of July 31, 2017 in Sections 1.3.1 and 1.3.2 of the SPA shall be replaced with the date of August 31, 2017.
3. Conditional Waiver of Default. The Investor conditionally waives the defaults for the Issuer's failure to meet the original and previously amended Maturity Date of the Note and delivery date for the Origination Shares, but the Investor does not waive any damages, fees, penalties, liquidated damages, or other amounts or remedies otherwise resulting from such defaults (which damages, fees, penalties, liquidated damages, or other amounts or remedies the Investor may choose in the future to assess, apply or pursue in its sole discretion) and the Investor's conditional waiver is conditioned on the Issuer's not being in default of and not breaching any term of the Note or the SPA or any other Transaction Documents at any time subsequent to the date of this Amendment (if the Issuer triggers an event of default or breaches any term of the Note, the SPA, or the Transaction Documents at any time subsequent to the date of this Amendment, the Investor may issue a notice of default for the Issuer's failure to meet the original Maturity Date of the Note and delivery date of the Origination Shares).

ALL OTHER TERMS AND CONDITIONS OF THE SPA AND THE NOTE REMAIN IN FULL FORCE AND EFFECT.

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Please indicate acceptance and approval of this Amendment by signing below:

/s/ Gianni Arcaini  
Gianni Arcaini  
Duos Technologies Group, Inc.  
Chief Executive Officer

/s/ Justin Keener  
JMJ Financial  
Its Principal

*[Amendment #3 Signature Page]*



**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Gianni B. Arcaini, certify that:

1. I have reviewed this Form 10-Q of Duos Technologies Group, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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 control 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 during the period in which this 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; and
  - 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2017

By: /s/ Gianni B. Arcaini  
Gianni B. Arcaini  
Principal Executive Officer  
Duos Technologies Group, Inc.

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Adrian G. Goldfarb, certify that:

1. I have reviewed this Form 10-Q of Duos Technologies Group, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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 control 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 during the period in which this 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; and
  - 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2017

By: /s/ Adrian G. Goldfarb  
Adrian G. Goldfarb  
Principal Financial Officer  
Duos Technologies Group, Inc.

**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, 2017, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Gianni B. Arcaini, Principal 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, 2017, 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, 2017, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 15, 2017

By: /s/ Gianni B. Arcaini  
Gianni B. Arcaini  
Principal Executive Officer  
Duos Technologies Group, Inc.

**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, 2017, as filed with the U.S. Securities and Exchange Commission on the date hereof, I Adrian G. Goldfarb, Principal 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, 2017, 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, 2017, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 15, 2017

By: /s/ Adrian G. Goldfarb  
Adrian G. Goldfarb  
Principal Financial Officer  
Duos Technologies Group, Inc.