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

FORM 10-Q

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from ________________ to ________________

Commission file number 000-55497

Duos Technologies Group, Inc.

(Exact name of registrant as specified in its charter)

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

6622 Southpoint Drive South, Suite 310,
Jacksonville, Florida 32216
(Address of principal executive offices)

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

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

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

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

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

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

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

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

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

As of November 11, 2021, the registrant has one class of common equity, and the number of shares outstanding of such common equity is 3,610,801.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2021 (Unaudited)	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,257,971	$ 3,969,100
Accounts receivable, net	384,654	1,244,876
Contract assets	249,870	102,458
Prepaid expenses and other current assets	644,878	486,626
Total Current Assets	3,537,373	5,803,060
Property and equipment, net	368,327	342,180
Operating lease right of use asset, net	22,930	196,144
Security deposit	600,000	—
OTHER ASSETS:		
Patents and trademarks, net	67,824	64,415
Total Other Assets	67,824	64,415
TOTAL ASSETS	$ 4,596,454	$ 6,405,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 978,170	$ 599,317
Accounts payable - related parties	—	7,700
Notes payable - financing agreements	54,953	42,942
Payroll taxes payable	—	3,146
Accrued expenses	1,191,567	1,038,092
Current portion - equipment financing agreements	92,700	89,620
Current portion - operating lease obligations	23,333	202,797
Current portion - PPP loan	—	627,465
Contract liabilities	449,496	709,553
Deferred revenue	907,154	315,370
Total Current Liabilities	3,697,373	3,636,002
Equipment financing payable, less current portion	33,860	103,184
PPP loan, less current portion	—	782,805
Total Liabilities	3,731,233	4,521,991
Commitments and Contingencies (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock: $0.001 par value, 10,000,000 authorized, 9,480,000 shares available to be designated		
Series A redeemable convertible preferred stock, $10 stated value per share,500,000 shares designated; 0 issued and outstanding at September 30, 2021 and December 31, 2020, convertible into common stock at $6.30 per share	—	—
Series B convertible preferred stock, $1,000 stated value per share, 15,000 shares designated; 1,705 and 1,705 issued and outstanding at September 30, 2021 and December 31, 2020, convertible into common stock at $7 per share	1,705,000	1,705,000
Series C convertible preferred stock, $1,000 stated value per share, 5,000 shares designated; 4,500 issued and outstanding at September 30, 2021 and 0 issued and outstanding at December 31, 2020, convertible into common stock at $5.50 per share	4,500,000	—
Common stock: $0.001 par value; 500,000,000 shares authorized, 3,612,125 and 3,535,339 shares issued, 3,610,801 and 3,534,015 shares outstanding at September 30, 2021 and December 31, 2020, respectively	3,612	3,536
Additional paid-in-capital	40,111,551	39,820,874
Total stock & paid-in-capital	46,320,163	41,529,410
Accumulated deficit	(45,297,490)	(39,488,150)

Sub-total	1,022,673	2,041,260
Less: Treasury stock (1,324 shares of common stock at September 30, 2021 and December 31, 2020)	(157,452)	(157,452)
Total Stockholders' Equity	865,221	1,883,808
Total Liabilities and Stockholders' Equity	$ 4,596,454	$ 6,405,799

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
REVENUES:				
Technology systems	$ 1,153,150	$ 729,231	$ 2,743,849	$ 2,840,538
Services and consulting	587,307	552,718	1,800,030	1,414,498
Total Revenues	1,740,457	1,281,949	4,543,879	4,255,036
COST OF REVENUES:				
Technology systems	1,869,812	976,121	4,979,667	3,390,211
Services and consulting	277,054	319,334	986,757	827,532
Overhead	657,907	233,597	1,754,731	752,421
Total Cost of Revenues	2,804,773	1,529,052	7,721,155	4,970,164
GROSS MARGIN	(1,064,316)	(247,103)	(3,177,276)	(715,128)
OPERATING EXPENSES:				
Sales & marketing	361,820	173,197	1,024,872	435,522
Research & development	57,000	21,583	197,164	77,179
Administration	963,357	2,264,960	2,817,949	4,993,985
Total Operating Expenses	1,382,177	2,459,740	4,039,985	5,506,686
LOSS FROM OPERATIONS	(2,446,493)	(2,706,843)	(7,217,261)	(6,221,814)
OTHER INCOME (EXPENSES):				
Interest expense	(4,819)	(6,260)	(16,580)	(133,435)
Other income, net	875	4,524	1,424,501	33,732
Total Other Income (Expenses)	(3,944)	(1,736)	1,407,921	(99,703)
NET LOSS	$ (2,450,437)	$ (2,708,579)	$ (5,809,340)	$ (6,321,517)
Basic & Diluted Net Loss Per Share	$ (0.68)	$ (0.77)	$ (1.63)	$ (1.95)
Weighted Average Shares-Basic & Diluted	3,588,381	3,528,128	3,559,340	3,247,954

See accompanying condensed notes to the unaudited consolidated financial statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended September 30, 2021 and 2020
(Unaudited)

	Preferred Stock B		Preferred Stock C		Common Stock		Additional	Accumulated	Treasury	
	# of Shares	Amount	# of Shares	Amount	# of Shares	Amount	Paid-in-Capital	Deficit	Stock	Total
Balance December 31, 2020	1,705	$ 1,705,000	—	$ —	3,535,339	$ 3,536	$ 39,820,874	$ (39,488,150)	$ (157,452)	$ 1,883,808
Stock options granted to employees	—	—	—	—	—	—	76,301	—	—	76,301
Series C preferred stock issued	—	—	4,500	4,500,000	—	—	—	—	—	4,500,000

Net loss for the three months ended March 31, 2021	—	—	—	—	—	—	—	(406,023)	—	(406,023)
Balance March 31, 2021	1,705	$ 1,705,000	4,500	$ 4,500,000	3,535,339	$ 3,536	$ 39,897,175	$ (39,894,173)	$ (157,452)	$ 6,054,086
Stock options granted to employees	—	—	—	—	—	—	76,862	—	—	76,862
Common stock issued for cashless warrants exercised	—	—	—	—	50,588	50	(50)	—	—	—
Net loss for the three months ended June 30, 2021	—	—	—	—	—	—	—	(2,952,880)	—	(2,952,880)
Balance June 30, 2021	1,705	$ 1,705,000	4,500	$ 4,500,000	3,585,927	$ 3,586	$ 39,973,987	$ (42,847,053)	$ (157,452)	$ 3,178,068
Stock options granted to employees	—	—	—	—	—	—	62,590	—	—	62,590
Common stock issued for services	—	—	—	—	11,255	11	74,989	—	—	75,000
Common stock issued for cashless employee stock options exercised	—	—	—	—	14,576	15	(15)	—	—	—
Rounding-split in 2020 (367 shares)	—	—	—	—	367	0	(0)	—	—	—
Net loss for the three months ended September 30, 2021	—	—	—	—	—	—	—	(2,450,437)	—	(2,450,437)
Balance September 30, 2021	1,705	$ 1,705,000	4,500	$ 4,500,000	3,612,125	$ 3,612	$ 40,111,551	$ (45,297,490)	$ (157,452)	$ 865,221
Balance December 31, 2019	1,705	$ 1,705,000	—	$ —	1,982,039	$ 1,982	$ 31,063,915	$ (32,740,715)	$ (157,452)	$ (127,270)
Common stock issued	—	—	—	—	1,542,188	1,542	9,251,586	—	—	9,253,128
Stock options granted to employees	—	—	—	—	—	—	8,100	—	—	8,100
Stock issuance cost	—	—	—	—	—	—	(1,001,885)	—	—	(1,001,885)
Common stock issued for services	—	—	—	—	1,611	2	7,498	—	—	7,500
Net loss for the three months ended March 31, 2020	—	—	—	—	—	—	—	(2,147,049)	—	(2,147,049)
Balance March 31, 2020	1,705	$ 1,705,000	—	$ —	$ 3,525,838	$ 3,526	$ 39,329,214	$ (34,887,764)	$ (157,452)	$ 5,992,524
Modification of employee stock options	—	—	—	—	—	—	102,800	—	—	102,800
Stock options granted to employees	—	—	—	—	—	—	88,170	—	—	88,170
Common stock issued for services	—	—	—	—	1,632	2	7,498	—	—	7,500
Net loss for the three months ended June 30, 2020	—	—	—	—	—	—	—	(1,465,889)	—	(1,465,889)
Balance June 30, 2020	1,705	$ 1,705,000	—	$ —	$ 3,527,470	$ 3,528	$ 39,527,682	$ (36,353,653)	$ (157,452)	$ 4,725,105
Stock options granted to employees	—	—	—	—	—	—	165,491	—	—	165,491
Common stock issued for services	—	—	—	—	7,869	8	37,492	—	—	37,500
Net loss for the three months ended September 30, 2020	—	—	—	—	—	—	—	(2,708,579)	—	(2,708,579)
Balance September 30, 2020	1,705	$ 1,705,000	—	$ —	$ 3,535,339	$ 3,536	$ 39,730,665	$ (39,062,232)	$ (157,452)	$ 2,219,517

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2021	**2020**
Cash from operating activities:		

Net loss	$ (5,809,340)	$ (6,321,517)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	281,220	159,121
Stock based compensation	215,753	261,761
Stock issued for services	75,000	—
Modification of employee stock options	—	102,800
PPP loan forgiveness including accrued interest	(1,421,577)	—
Interest expense related to debt discounts	—	94,627
Bad debt expense	76,046	—
Changes in assets and liabilities:		
Accounts receivable	631,948	1,271,822
Contract assets	(147,412)	1,191,685
Prepaid expenses and other current assets	264,878	331,456
Operating lease right of use asset	173,214	172,778
Security deposit	(600,000)	—
Accounts payable	378,853	(1,938,824)
Accounts payable-related party	(7,700)	(4,841)
Payroll taxes payable	(3,146)	(111,965)
Accrued expenses	164,782	648,625
Operating lease obligation	(179,464)	(176,345)
Contract liabilities	(207,507)	324,090
Deferred revenue	591,784	(229,184)
Net cash used in operating activities	(5,522,668)	(4,223,911)
Cash flows from investing activities:		
Purchase of patents/trademarks	(7,435)	(8,185)
Purchase of fixed assets	(303,341)	(216,401)
Net cash used in investing activities	(310,776)	(224,586)
Cash flows from financing activities:		
Repayments of line of credit	—	(27,615)
Repayments of insurance and equipment financing	(311,442)	(204,659)
Repayment of finance lease	(66,243)	(42,046)
Repayment of notes payable	—	(1,000,000)
Proceeds from PPP loan	—	1,410,270
Proceeds from equipment financing	—	121,637
Proceeds from common stock issued	—	9,253,128
Issuance cost	—	(1,001,885)
Proceeds from preferred stock issued	4,500,000	—
Net cash provided by financing activities	4,122,315	8,508,830
Net (decrease) increase in cash	(1,711,129)	4,060,333
Cash, beginning of period	3,969,100	56,249
Cash, end of period	$ 2,257,971	$ 4,116,582
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Interest paid	$ 25,678	$ 32,768
<u>Supplemental Non-Cash Investing and Financing Activities:</u>		
Common stock issued for accrued BOD fees	$ —	$ 52,500
Lease right of use asset and liability	$ —	$ 644,245
Notes issued for financing of insurance premiums	$ 323,452	$ 233,350

See accompanying condensed notes to the unaudited consolidated financial statements.

DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021
(Unaudited)

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

<u>Nature of Operations</u>

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

The Company has developed the Railcar Inspection Portal (RIP) that provides both freight and transit railroad customers and select government agencies the ability to conduct fully automated inspections of trains while they are in transit. The system, which incorporates a variety of sophisticated optical technologies, illumination and other sensors,

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

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

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

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

Through September 30, 2021, the Company also provided professional and consulting services for large data centers and had developed a system for the automation of asset information marketed as DcVue™. The Company had deployed its DcVue software at one beta site. This software was used by Duos' consulting auditing teams. DcVue was based upon the Company's OSPI patent which was awarded in 2010. The Company offered DcVue available for license to our customers as a licensed software product. (see Note 10)

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (all of which are of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021 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, 2020 filed with the Securities and Exchange Commission (the "SEC") on March 30, 2021.

Reclassifications

The Company reclassified certain revenues and expenses for the three and nine months ended September 30, 2020 to conform to 2021 classification. There was no net effect on the total expenses of such reclassification.

The following tables reflect the reclassification adjustment effect in the three and nine months ended September 30, 2020:

	Before Reclassification For the Three Months Ended September 30, 2020		After Reclassification For the Three Months Ended September 30, 2020
REVENUES:		REVENUES:	
Technology systems	$ 672,951	Technology systems	$ 729,231
Technical support	502,502	Services and consulting	552,718
Consulting services	50,216	—	—
AI technologies	56,280	—	—
Total Revenue	1,281,949	Total Revenue	1,281,949
COST OF REVENUES:		COST OF REVENUES:	
Technology systems	601,814	Technology systems	976,121
Technical support	333,721	Services and consulting	319,334
Consulting services	12,301	Overhead	233,597
AI technologies	39,182	—	—
Total Cost of Revenues	987,018	Total Cost of Revenues	1,529,052
GROSS MARGIN	294,931	GROSS MARGIN	(247,103)
OPERATING EXPENSES:		OPERATING EXPENSES:	
Sales and marketing	173,197	Sales and marketing	173,197
Engineering	280,897	Research and development	21,583
Research and development	215,831	Administration	2,264,960
Administration	1,991,408	—	—

AI technologies	340,441	—	—
Total Operating Expenses	3,001,774	Total Operating Expenses	2,459,740
LOSS FROM OPERATIONS	$ (2,706,843)	LOSS FROM OPERATIONS	$ (2,706,843)

	Before Reclassification For the Nine Months Ended September 30, 2020		After Reclassification For the Nine Months Ended September 30, 2020
REVENUES:		REVENUES:	
Technology systems	$ 2,606,034	Technology systems	$ 2,840,538
Technical support	1,229,813	Services and consulting	1,414,498
Consulting services	184,685	—	—
AI technologies	234,504	—	—
Total Revenue	4,255,036	Total Revenue	4,255,036
COST OF REVENUES:		COST OF REVENUES:	
Technology systems	2,080,872	Technology systems	3,390,211
Technical support	802,751	Services and consulting	827,532
Consulting services	84,561	Overhead	752,421
AI technologies	149,681	—	—
Total Cost of Revenues	3,117,865	Total Cost of Revenues	4,970,164
GROSS MARGIN	1,137,171	GROSS MARGIN	(715,128)
OPERATING EXPENSES:		OPERATING EXPENSES:	
Sales and marketing	435,522	Sales and marketing	435,522
Engineering	946,303	Research and development	77,179
Research and development	771,789	Administration	4,993,985
Administration	4,030,906	—	—
AI technologies	1,174,465	—	—
Total Operating Expenses	7,358,985	Total Operating Expenses	5,506,686
LOSS FROM OPERATIONS	$ (6,221,814)	LOSS FROM OPERATIONS	$ (6,221,814)

Principles of Consolidation

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

Use of Estimates

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

Concentrations

Cash Concentrations

Cash is maintained at financial institutions and at times, balances may exceed federally insured limits. We have not experienced any losses related to these balances. As of September 30, 2021, the balance in one financial institution exceeded federally insured limits by approximately $1,603,300.

Significant Customers and Concentration of Credit Risk

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

For the nine months ended September 30, 2021, one customer accounted for79% ("Customer 2") of revenues. For the nine months ended September 30, 2020, three customers accounted for 42% ("Customer 1"), 20% ("Customer 2") and 11% ("Customer 3") of revenues. The Company's strategy going forward is to add additional customers and to diversify offerings to reduce the current concentration risk. In all cases, there is no minimum contract value stated. Each contract covers an agreement to deliver a rail inspection portal which, once accepted, must be paid in full with 30% or more being due and payable prior to delivery. The balances of the contracts are for service and maintenance which is paid annually in advance with revenues recorded ratably over the contract period. Each of the customers referenced has the following termination provisions:

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

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

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

At September 30, 2021, two customers accounted for65% and 18% of accounts receivable. At December 31, 2020, two customers accounted for56% and 30% of accounts receivable. Much of the credit risk is mitigated since all of the customers listed here are Class 1 railroads with a history of timely payments to us.

Geographic Concentration

For the nine months ended September 30, 2021, approximately84% of revenue was generated from three customers outside of the United States. For the nine months ended September 30, 2020, approximately 30% of revenue was generated from two customers outside of the United States. These customers are Canadian and Mexican, and two of the three are Class 1 railroads operating in the United States.

Fair Value of Financial Instruments and Fair Value Measurements

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

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

These inputs are prioritized below:

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

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions that the market participants would use in the valuation of the asset or liability based on the best available information.

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

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

Software Development Costs

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

Earnings (Loss) Per Share

Basic earnings per share (EPS) are computed by dividing net loss applicable to common stock by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss applicable to common stock by the weighted average number of common shares outstanding for the period and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise or conversion of stock options, stock warrants, convertible debt instruments, convertible preferred stock or other common stock equivalents. Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. At September 30, 2021, there was an aggregate of 1,376,466 outstanding warrants to purchase shares of common stock. At September 30, 2021, there were employee stock options to purchase an aggregate of 431,266 shares of common stock. Also, at September 30, 2021,243,571 common shares were issuable upon conversion of Series B convertible preferred stock and 818,182 common shares were issuable upon conversion of Series C convertible preferred stock all of which were excluded from the computation of dilutive earnings per share because their inclusion would have been anti-dilutive.

Accounts Receivable

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

Revenue Recognition

As of January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASC 606"), that affects the timing of when certain types of revenues will be recognized. The basic principles in ASC 606 include the following: a contract with a customer creates distinct unrecognized contract assets and performance obligations, satisfaction of a performance obligation creates revenue, and a performance obligation is satisfied upon transfer of control to a good or service to a customer.

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

1. Identify the contract with the customer;

2. Identify the performance obligations in the contract;

3. Determine the transaction price;

4. Allocate the transaction price to separate performance obligations; and

5. Recognize revenue when (or as) each performance obligation is satisfied.

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

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

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

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

Segment Information

The Company operates in one reportable segment.

Stock Based Compensation

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

Determining Fair Value Under ASC 718-10

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

price as well as assumptions regarding the number of highly subjective variables.

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

Recent Accounting Pronouncements

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

In August 2020, the FASB issued an accounting pronouncement (ASU 2020-06) related to the measurement and disclosure requirements for convertible instruments and contracts in an entity's own equity. The pronouncement simplifies and adds disclosure requirements for the accounting and measurement of convertible instruments and the settlement assessment for contracts in an entity's own equity. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021. We plan to adopt this pronouncement for our fiscal year beginning January 1, 2022, and we do not expect it to have a material effect on our consolidated financial statements.

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

NOTE 2 – GOING CONCERN

As reflected in the accompanying unaudited consolidated financial statements, the Company had a net loss of $2,450,437 for the three months ended September 30, 2021 and $5,809,340 for the nine months ended September 30, 2021. During the nine months ended September 30, 2021, net cash used in operating activities was $5,522,668. The working capital deficit and accumulated deficit as of September 30, 2021 were $160,000 and $45,297,490, respectively. Management believes that, at this time, the conditions in our market space with ongoing contract delays, the consequent need to procure certain materials in advance of a binding contract and the additional time needed to execute on new contracts have put a strain on our cash reserves and that because of these factors, there is substantial doubt for the Company to continue as a going concern for a period of twelve months from the issuance date of this report.

We were executing the plan to grow our business and achieve profitability without the requirement to raise additional capital for existing operations. Due to the various delays encountered, Management evaluated our requirements in the past 90 days and has determined that the Company currently has sufficient cash to operate for the next six months. As part of its evaluation, the Company has determined that the previously sufficient levels of working capital must be bolstered in order to allow the Company to execute its growth plans with identified business expected to be executed in 2022. As previously noted, the Company raised $4,500,000 from existing shareholders through the issuance of Series C Convertible Preferred Stock. Although additional investment is not assured, the Company is comfortable that it would be able to raise sufficient capital to support expanded operations based on an anticipated increase in business activity. In the long run, the continuation of the Company as a going concern is dependent upon the ability of the Company to continue executing the plan described above, generate enough revenue, and attain consistently profitable operations. Although the current global pandemic related to the coronavirus (Covid-19) has affected our operations, we now believe that this is expected to be an ongoing issue and that our working capital assumptions must now reflect this new reality. The Company cannot currently quantify the uncertainty related to the pandemic and its effects on our customers in the coming quarters. We have analyzed our cash flow under "stress test" conditions and have determined that we have sufficient liquid assets on hand to maintain operations for at least six months from the date of this report.

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:

	September 30, 2021		December 31, 2020	
Notes Payable	**Principal**	**Interest**	**Principal**	**Interest**
Third Party - Insurance Note 1	$ 2,401	7.75%	$ 23,327	7.75%
Third Party - Insurance Note 2	31,423	6.24%	10,457	5.26%
Third Party - Insurance Note 3	19,965	—	9,158	—
Third Party - Insurance Note 4	—	—	—	—
Third Party - Insurance Note 5	1,164	7.75%	—	—
Total	$ 54,953		$ 42,942	

The Company entered into an agreement on December 23, 2020 with its insurance provider by issuing a $23,327 note payable (Insurance Note 1) for the purchase of an insurance policy, secured by that policy with an annual interest rate of 7.75% payable in monthly installments of principal and interest totaling $2,416 through October 23, 2021. The balance of Insurance Note 1 as of September 30, 2021 and December 31, 2020 was $2,401 and $23,327, respectively.

The Company entered into an agreement on April 15, 2020 with its insurance provider by issuing a $51,379 note payable (Insurance Note 2) for the purchase of an insurance policy, secured by that policy with an annual interest rate of 5.26% payable in monthly installments of principal and interest totaling $5,263 through February 15, 2021. The note payable renewed on April 15, 2021 in the amount of $62,041, secured with an annual interest rate of6.24% and payable in 10 monthly installments of principal and interest totaling $6,383. At September 30, 2021 and December 31, 2020, the balance of Insurance Note 2 was $31,423 and $10,457, respectively.

The Company entered into an agreement on September 15, 2020 with its insurance provider by issuing a $13,796 note payable (Insurance Note 3) for the purchase of an insurance policy, secured by 12 monthly installments. The note payable renewed on September 15, 2021 in the amount of $19,965 and payable in 10 monthly installments of $1,997. At September 30, 2021 and December 31, 2020, the balance of Insurance Note 3 was $19,965 and $9,158, respectively.

The Company entered into an agreement on February 3, 2020 with its insurance provider by issuing a $165,375 note payable (Insurance Note 4) with a down payment of $55,563 for the purchase of an insurance policy secured by eight monthly installments of $13,726 through December 3, 2020. The policy renewed on February 3, 2021 in the amount of $215,654 with a down payment paid in the amount of $37,000 on April 6, 2021 and ten monthly installments of $17,899. The Company received a refund for the annual audit of the policy resulting in the refund being applied to the outstanding amount of $35,787. At September 30, 2021 and December 31, 2020, the balance of Insurance Note 4 was zero and zero, respectively.

The Company entered into an agreement on May 23, 2021 with its insurance provider by issuing a $6,874 note payable (Insurance Note 5) for the purchase of an insurance policy, secured with an annual interest rate of 7.75% and payable in 6 monthly installments of principal and interest totaling $1,172. At September 30, 2021 and December 31, 2020, the balance of Insurance Note 5 was $1,164 and zero, respectively.

Equipment Financing

The Company entered into an agreement on August 26, 2019 with an equipment financing company by issuing a $147,810 secured note, with an annual interest rate of 12.72% and payable in monthly installments of principal and interest totaling $4,963 through August 1, 2022. The Company entered into an additional agreement on May 22, 2020 with the same equipment financing company by issuing a $121,637 secured note, with an annual interest rate of 9.90% and payable in monthly installments of principal and interest totaling $3,919 through June 1, 2023. At September 30, 2021 and December 31, 2020, the balance of these notes was $126,560 and $192,804, respectively.

At September 30, 2021, future minimum lease payments due under the equipment financing is as follows:

As of September 30,		Amount
2021	$	26,648
2022		86,735
2023		23,515
Total minimum equipment financing payments	$	136,898
Less: interest		(10,338)
Total equipment financing at September 30, 2021	$	126,560
Less: current portion of equipment financing		(92,700)
Long term portion of equipment financing	$	33,860

Notes Payable – PPP Loan

	September 30, 2021			December 31, 2020		
Payable To		**Principal**	**Interest**		**Principal**	**Interest**
PPP loan	$	—		$	1,410,270	1%
Total		—			1,410,270	
Less current portion		—			(627,465)	
Long term portion	$	—		$	782,805	

On April 23, 2020, the Company entered into a promissory note (the "Note") with BBVA USA, which provided for a loan in the amount of $1,410,270 (the "Loan") pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Note had a two-year term and accrued interest at a rate of 1.00% per annum (APR 1.014%). Monthly principal and interest payments were deferred for nine months after the date of disbursement. The Note could be prepaid at any time prior to maturity with no prepayment penalties. The Company applied for the PPP loan forgiveness and was granted forgiveness on February 1, 2021. At September 30, 2021 and December 31, 2020, the loan balance was zero and $1,410,270, respectively.

NOTE 4 – LINE OF CREDIT

The Company assumed a line of credit with Wells Fargo Bank upon the merger with ISA on April 1, 2015. The line of credit provided for borrowings up to $40,000 but is now closed. The balance as of September 30, 2021 and December 31, 2020, was zero and zero, respectively, including accrued interest. This line of credit has been paid in full as of May 5, 2020.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Delinquent Payroll Taxes Payable

The Company has paid its delinquent IRS payroll taxes, late fees and outstanding state of California payroll taxes in full. At September 30, 2021 and December 31, 2020, the state payroll taxes payable balance was zero and $3,146, respectively.

Operating Lease Obligations

The Company has an operating lease agreement for office space that was amended on May 1, 2016 and again on April 1, 2019, increasing the office space from 8,308 square feet to 10,203 square feet, with the lease ending on October 31, 2021. The rent is subject to an annual escalation of 3%, beginning May 1, 2017. (see Note 10)

The Company entered a new lease agreement of office and warehouse combination space of 4,400 square feet on June 1, 2018, with the lease originally ending May 31, 2021. The Company has extended this lease to coincide with the main office space lease which ends on October 31, 2021. This additional space allows for resource growth and engineering efforts for operations before deploying to the field. The rent is subject to an annual escalation of 3%. (see Note 10)

The Company now has a total of office and warehouse space of approximately 14,603 square feet.

At September 30, 2021, future minimum lease payments due under operating leases are as follows:

As of September 30, 2021		Amount
Total minimum financial lease payments		23,566
Less: interest		(233)
Total lease liability at September 30, 2021	$	23,333

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)* ("ASU 2016-02"), which requires all leases with a term greater than 12 months to be recognized on the balance sheet, while lease expenses would continue to be recognized in the statement of operations in a manner similar to current accounting guidance. We adopted ASU 2016-02 effective January 1, 2019, on a modified retrospective basis, without adjusting comparative periods presented. Effective January 1, 2019, the Company established a right-of-use model (ROU) asset and operating lease liability in the amount of $644,245. The Company extended the lease agreement of office and warehouse combination space to coincide with the main office space and recorded a right-of-use model (ROU) to the asset and operating lease liability in the amount of $21,022. The right of use asset balance at September 30, 2021 was $23,333. As of September 30, 2021, these are the Company's only leases with terms greater than 12 months. The adoption of ASU 2016-02 did not materially affect our unaudited consolidated statement of operations or our unaudited consolidated statements of cash flows. We made an accounting policy election to keep leases with an initial term of 12 months or less off the balance sheet and to recognize all lease payments for leases with a term greater than 12 months on a straight-line basis over the lease term in our unaudited consolidated statements of operations.

On July 26, 2021, the Company entered a new operating lease agreement of office and warehouse combination space of 40,000 square feet with the lease commencing on November 1, 2021 and ending May 31, 2032 This additional space allows for resource growth and engineering efforts for operations before deploying to the field. The rent for the first twelve months of the term will be calculated as rentable base space on 30,000 square feet. The rent is subject to an annual escalation of 2.5%, beginning December 1, 2022. The Company made a security deposit in the amount of $600,000 on July 26, 2021. The Company will apply the FASB issued ASU No. 2016-02 *Leases (Topic 842)* ("ASU 2016-02") in the fourth quarter of 2021. (see Note 10)

Executive Severance Agreement

On July 10, 2020, the Company announced that Gianni Arcaini would retire from the positions of Chief Executive Officer and Chairman of the Board effective as of September 1, 2020 (the "CEO Transition"). In order to facilitate a transition of his duties, the Company and Mr. Arcaini entered into a separation agreement which became effective as of July 10, 2020 (the "Separation Agreement"). Pursuant to the Separation Agreement, Mr. Arcaini's employment with the Company ended on September 1, 2020 ("Separation Date") and he will receive separation payments over a 36-month period equal to his base salary plus $75,000 as well as certain limited health and life insurance benefits. The Separation Agreement also contains confidentiality, non-disparagement and non-solicitation covenants and a release of claims by Mr. Arcaini who continued to serve as Chairman of the Board of Directors of the Company. The Corporate Governance and Nominating Committee did not submit Mr. Arcaini for re-election as a director and on November 19, 2020 at the Annual Shareholders meeting a new non-Executive Chairman was appointed.

In accordance with the Separation Agreement, the Company will pay to Mr. Arcaini the total sum of $747,788. Notwithstanding the foregoing, the status of Mr. Arcaini as a "Specified Employee" as defined in Internal Revenue Code Section 409A has the effect of delaying any payments to Mr. Arcaini under the Separation Agreement for six months after the Separation Date. On March 1, 2021, the Company paid to Mr. Arcaini a lump-sum amount equal to the first six months of payments, or $ 124,631, owed to Mr. Arcaini and the Company will continue to pay him in semi-monthly installments for 30 months thereafter, as contemplated in Mr. Arcaini's Separation Agreement. The remaining balance of approximately $541,000 as of September 30, 2021 is included in accrued expenses in the accompanying consolidated balance sheet. In addition, the Company will pay one-half of Mr. Arcaini's current life insurance premiums for 36 months of approximately $ 1,200 per month and provide and pay for his health insurance for 36 months following the Separation Date of approximately $450 per month. Unvested options in the amount of 50,358 became exercisable and vested in their entirety on the Separation Date valued at $95,127. The Company made payment of his attorneys' fees for legal work associated with the negotiation and drafting of the Separation Agreement of approximately $17,000.

NOTE 6 – STOCKHOLDERS' EQUITY

Common stock issued

On February 12, 2020, the Company entered into an underwriting agreement (the "Underwriting Agreement") with ThinkEquity, a division of Fordham Financial Management, Inc. ("ThinkEquity"), as representative of the underwriters listed therein (the "Underwriters"), pursuant to which the Company agreed to sell to the Underwriters in a firm commitment underwritten public offering (the "Offering") an aggregate of 1,350,000 shares of the Company's common stock, par value $0.001 per share (the "Common Stock"), at a public offering price of $6.00 per share. In addition, the Underwriters were granted an over-allotment option (the "Over-allotment Option") for a period of 45 days to purchase up to an additional 202,500 shares of Common Stock. The Offering closed on February 18, 2020. The Common Stock began trading on the Nasdaq Capital Market under the symbol DUOT on February 13, 2020.

On February 20, 2020, pursuant to and in compliance with the terms and conditions of the aforementioned Underwriting Agreement and the Offering, the Underwriters partially exercised the Over-allotment Option to purchase 192,188 shares of Common Stock at $6.00 per share (the "Over-Allotment Exercise"). The sale of the Over-Allotment Exercise to purchase 192,188 shares of Common Stock closed on February 21, 2020.

In total, the Company issued 1,542,188 shares of Common Stock in connection with the underwritten public offering and up listing to the Nasdaq Capital Market national exchange. The securities were issued pursuant to a Registration Statement on Form S-1 (File No. 333- 235455), as amended, which was declared effective by the Securities and

Exchange Commission on February 12, 2020. The Company received gross proceeds of approximately $9.25 million for the Offering, including the exercise of the Over-Allotment Exercise, prior to deducting underwriting discounts and commissions and offering expenses payable by the Company.

Series C Convertible Preferred Stock

On February 26, 2021, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain existing investors in the Company (the "Purchasers"). Pursuant to the Purchase Agreement, the Purchasers purchased 4,500 shares of a newly authorized Series C Convertible Preferred Stock (the "Series C Convertible Preferred Stock"), and the Company received proceeds of $4,500,000. The Purchase Agreement contains customary representations, warranties, agreements and indemnification rights and obligations of the parties.

Under the Purchase Agreement, the Company was required to hold a meeting of shareholders at the earliest practical date, which ultimately occurred on July 15, 2021. Nasdaq Marketplace Rule 5635(d) limits the number of shares of common stock (or securities that are convertible into common stock) issuable, in certain circumstances, without shareholder approval. As previously disclosed, at its Annual Meeting of Shareholders, the Company obtained shareholder approval (the "Stockholder Approval") in order to issue shares of common stock underlying the Series C Convertible Preferred Stock at a price less than the lower of the price immediately preceding the signing of the Purchase Agreement or the average of the prices for the five trading days immediately preceding such signing which equal 20% or more of the number of shares of common stock outstanding before the issuance. As described below, the terms of the Series C Convertible Preferred Stock limited its convertibility to a number of shares less than the 20% limit, until the Stockholder Approval was obtained.

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

The Company's Board of Directors has designated 5,000 shares as the Series C Convertible Preferred Stock. Each share of the Series C Convertible Preferred Stock has a stated value of $1,000. The holders of the Series C Convertible Preferred Stock, the holders of the common stock and the holders of any other class or series of shares entitled to vote with the common stock shall vote together as one class on all matters submitted to a vote of shareholders of the Company. Each share of Series C Convertible Preferred Stock has 172 votes (subject to adjustment); provided that in no event may a holder of Series C Convertible Preferred Stock be entitled to vote a number of shares in excess of such holder's Beneficial Ownership Limitation (as defined in the Certificate of Designation and as described below). Each share of Series C Convertible Preferred Stock is convertible, at any time and from time to time, at the option of the holder, into that number of shares of common stock (subject to the Beneficial Ownership Limitation) determined by dividing the stated value of such share ($1,000) by the conversion price, which is $5.50 (subject to adjustment).

The Company shall not effect any conversion of the Series C Convertible Preferred Stock, and a holder shall not have the right to convert any portion of the Series C Convertible Preferred Stock, to the extent that after giving effect to the conversion sought by the holder such holder (together with such holder's Attribution Parties (as defined in the Certificate of Designation)) would beneficially own more than 4.99% (or upon election by a holder, 19.99%) of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock issuable upon such conversion (the "Beneficial Ownership Limitation"). All holders of the Series C Preferred Stock have elected the 19.99% Beneficial Ownership Limitation.

Stock-Based Compensation

Stock-based compensation expense recognized under ASC 718-10 for the nine months ended September 30, 2021 and 2020, was $215,753 and $261,761 respectively, for stock options granted to employees and directors. This expense is included in selling, general and administrative expenses in the unaudited consolidated statements of operations. Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that are ultimately expected to vest during the period. At September 30, 2021, the total compensation cost for stock options not yet recognized was $137,391. This cost will be recognized over the remaining vesting term of the options ranging from six months to two- and one-half years.

Employee Stock Options

A maximum of 178,572 shares were originally available for grant under the 2016 Equity Incentive Plan, as amended (the "2016 Plan"), and all outstanding options under the 2016 Plan provide a cashless exercise feature. The maximum number of shares was increased by shareholder approval to 321,429. The identification of individuals entitled to receive awards, the terms of the awards, and the number of shares subject to individual awards, were determined by our Board of Directors or the Compensation Committee, at their sole discretion. The aggregate number of shares with respect to which options or stock awards may be granted under the 2016 Plan and the purchase price per share, if applicable, shall be adjusted for any increase or decrease in the number of issued shares resulting from a stock dividend, stock split, reverse stock split, recapitalization, or similar event. As of September 30, 2021, and December 31, 2020, options to purchase 271,266 shares of common stock and 311,898 shares of common stock were outstanding under the 2016 Plan, respectively, and a further 160,000 and 140,000 non-plan options to purchase common stock were outstanding as of September 30, 2021, and December 31, 2020, respectively. The non-plan options were granted to four executives as hiring incentives, including the Company's CEO.

On April 1, 2020, the Board of Directors cancelled 161,402 options previously granted to existing employees and granted 310,290 options, of which 160,866 were replaced with new options carrying a $6.00 exercise price and a further 149,424 options were issued to existing employees, officers and directors carrying a $4.74 strike price with a vesting period ranging from 9 months to 21 months. On April 1, 2020, the new stock options issued had a fair value of $370,312. The options that were cancelled and replaced were accounted for by valuing the original options on the day before they were cancelled and valuing the new options on the day of issuance. The inputs used were a stock price of $4.74 on the day of cancellation and $4.70 on the day of issuance, expected term of 2.5 years, expected volatility of 81%, no anticipated dividend and an interest rate of 0.255%. The difference between the valuations was recorded as a one-time option expense given that options cancelled were already vested and the replacement options were immediately vested. The one-time expense for this cancellation and issuance was $102,800. The strike price of the cancelled options was $14.00. The 2016 Plan terminated pursuant to its terms on December 31, 2020. No further awards will be made under the 2016 Plan although all awards outstanding on that date will remain in effect according to their terms.

During the first quarter of 2021, the Company's Board of Directors granted 20,000 new stock options with a strike price of $4.32 per share to its new VP of Product Innovation. These options were awarded as a one-time award as a hiring incentive and have a fair value of $52,758 as of January 4, 2021. The issuance of these options generated stock option compensation expense in that quarter in the amount of $7,685 and a balance of unamortized stock option compensation expense of $45,073, that is being expensed over the following 2.75 years.

During the second quarter of 2021, five former staff members and one contractor exercised 31,710 and forfeited 8,922 non-qualified stock options. These transactions were ultimately consummated in the third quarter. Accordingly, in the third quarter the Company recorded a charge of $63,860 for the remaining unvested option which was offset by a credit of $1,270 for an over accrual recorded in the second quarter related to the forfeited options.

During the third quarter of 2021, the shareholders approved the issuance of up to one million shares or share equivalents in the form of stock options for the purposes of share

issuance for compensation to Board Members and grants to certain staff members for recruiting and retention. On July 14, 2021, the Company filed an S-8 registration statement in concert with the 2021 Equity Incentive Plan which was deemed effective on August 5, 2021. The plan covers a period of ten years.

Warrants

During the second quarter of 2021, warrants representing 205,574 shares were exercised by seven holders. All the exercises were cashless exercises with exercise prices of $7.70 and stock prices ranging from $9.25 to $11.14 resulting in a total of 50,588 common shares. No new warrants were issued during the third quarter of 2021.

NOTE 7 - REVENUE

Revenue Recognition and Contract Accounting

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

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

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

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

Contract Assets

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

At September 30, 2021 and December 31, 2020, contract assets on uncompleted contracts consisted of the following:

	September 30, 2021	December 31, 2020
Costs and estimated earnings recognized	$ 2,012,553	$ 4,152,850
Less: Billings or cash received	(1,762,683)	(4,050,392)
Contract assets	$ 249,870	$ 102,458

Contract Liabilities

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

At September 30, 2021 and December 31, 2020, contract liabilities on uncompleted contracts consisted of the following:

	September 30, 2021	December 31, 2020
Billings and/or cash receipts on uncompleted contracts	$ 3,861,055	$ 2,978,007
Less: Costs and estimated earnings recognized	(3,411,559)	(2,268,454)
Contract liabilities	$ 449,496	$ 709,553

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. Cost 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.

Artificial Intelligence

The Company has begun to derive revenue from applications that incorporate artificial intelligence (AI) in the form of predetermined algorithms to provide important operating information to the users of our systems. The revenue generated from these applications of AI consists of an annual application maintenance fee which will be recognized ratably over the year, plus fees for the design, development, testing and incorporation of new algorithms into the system which will be recognized upon completion of each deliverable.

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.

Consulting Services

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

For sales arrangements that do not involve performance obligations:

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

Multiple Elements

Arrangements with customers may involve multiple elements including project revenue and maintenance services in our Technology Systems business. Maintenance will occur after the project is completed and may be provided on an extended-term basis or on an as-needed basis. In our consulting services business, multiple 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 arrangements is as follows:

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

Deferred Revenue

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

Disaggregation of Revenue

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

Qualitative:

1. We have four distinct revenue sources:

    a. Turnkey, engineered projects;

    b. Associated maintenance and support services;

    c. Licensing and professional services related to auditing of data center assets; and

    d. Predetermined algorithms to provide important operating information to the users of our systems.

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

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

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

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

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

5. Transfer of goods and services are over time.

Quantitative:

For the Three Months Ended September 30, 2021

Segments	Rail	Commercial	Government	Banking/Other	IT Suppliers	Artificial Intelligence	Total
Primary Geographical Markets							
North America	$ 1,303,662	$ 45,547	$ 52,866	$ (3,288)	$ 945	$ 340,725	$ 1,740,457
Major Goods and Service Lines							
Turnkey Projects	$ 984,313	$ —	$ 32,645	$ —	$ —	$ 136,192	$ 1,153,150
Maintenance & Support	319,349	45,547	20,221	(3,288)	945	204,533	587,307
	$ 1,303,662	$ 45,547	$ 52,866	$ (3,288)	$ 945	$ 340,725	$ 1,740,457
Timing of Revenue Recognition							
Goods transferred over time	$ 984,313	$ —	$ 32,645	$ —	$ —	$ 136,192	$ 1,153,150
Services transferred over time	319,349	45,547	20,221	(3,288)	945	204,533	587,307
	$ 1,303,662	$ 45,547	$ 52,866	$ (3,288)	$ 945	$ 340,725	$ 1,740,457

For the Three Months Ended September 30, 2020

Segments	Rail	Commercial	Petrochemical	Government	Banking	IT Suppliers	Artificial Intelligence	Total
Primary Geographical Markets								
North America	$ 994,370	$ 109,611	$ 23,020	$ 26,107	$ 22,345	$ 50,216	$ 56,280	$ 1,281,949
Major Goods and Service Lines								
Turnkey Projects	$ 587,865	$ 49,595	$ 23,020	$ 5,886	$ 6,585	$ —	$ 56,280	$ 729,231
Maintenance & Support	406,505	60,016	—	20,221	15,760	—	—	502,502
Data Center Auditing Services	—	—	—	—	—	47,831	—	47,831
Software License	—	—	—	—	—	2,385	—	2,385
	$ 994,370	$ 109,611	$ 23,020	$ 26,107	$ 22,345	$ 50,216	$ 56,280	$ 1,281,949
Timing of Revenue Recognition								

Goods transferred over time	$ 587,865	$ 49,595	$ 23,020	$ 5,886	$ 6,585	$ 50,216	$ 56,280	$ 779,447
Services transferred over time	406,505	60,016	—	20,221	15,760	—	—	502,502
	$ 994,370	$ 109,611	$ 23,020	$ 26,107	$ 22,345	$ 50,216	$ 56,280	$ 1,281,949

For the Nine Months Ended September 30, 2021

Segments	Rail	Commercial	Government	Banking/Other	IT Suppliers	Artificial Intelligence	Total
Primary Geographical Markets							
North America	$ 3,527,736	$ 158,989	$ 198,153	$ 22,473	$ 134,717	$ 501,811	$ 4,543,879
Major Goods and Service Lines							
Turnkey Projects	$ 2,311,530	$ —	$ 137,490	$ 1,537	$ —	$ —	$ 2,450,557
Maintenance & Support	1,216,206	158,989	60,663	20,936	—	208,519	1,665,313
Data Center Auditing Services	—	—	—	—	131,537	—	131,537
Software License	—	—	—	—	3,180	—	3,180
Algorithms	—	—	—	—	—	293,292	293,292
	$ 3,527,736	$ 158,989	$ 198,153	$ 22,473	$ 134,717	$ 501,811	$ 4,543,879
Timing of Revenue Recognition							
Goods transferred over time	$ 2,311,530	$ —	$ 137,490	$ 1,537	$ 131,537	$ 208,519	$ 2,790,613
Services transferred over time	1,216,206	158,989	60,663	20,936	3,180	293,292	1,745,266
	$ 3,527,736	$ 158,989	$ 198,153	$ 22,473	$ 134,717	$ 501,811	$ 4,543,879

For the Nine Months Ended September 30, 2020

Segments	Rail	Commercial	Petrochemical	Government	Banking	IT Suppliers	Artificial Intelligence	Total
Primary Geographical Markets								
North America	$ 3,339,519	$ 236,498	$ 23,020	$ 73,477	$ 163,333	$ 184,685	$ 234,504	$ 4,255,036
Major Goods and Service Lines								
Turnkey Projects	$ 2,401,552	$ 55,797	$ 23,020	$ 5,886	$ 119,779	$ —	$ 234,504	$ 2,840,538
Maintenance & Support	937,967	180,701	—	67,591	43,554	—	—	1,229,813
Data Center Auditing Services	—	—	—	—	—	177,530	—	177,530
Software License	—	—	—	—	—	7,155	—	7,155
	$ 3,339,519	$ 236,498	$ 23,020	$ 73,477	$ 163,333	$ 184,685	$ 234,504	$ 4,255,036
Timing of Revenue Recognition								
Goods transferred over time	$ 2,401,552	$ 55,797	$ 23,020	$ 5,886	$ 119,779	$ 184,685	$ 234,504	$ 3,025,223
Services transferred over time	937,967	180,701	—	67,591	43,554	—	—	1,229,813

$ 3,339,519	$ 236,498	$ 23,020	$ 73,477	$ 163,333	$ 184,685	$ 234,504	$ 4,255,036

NOTE 8 – DEFINED CONTRIBUTION PLAN

The Company has a 401(k)-retirement savings plan (the "401(k) Plan") covering all eligible employees. The 401(k) Plan allows employees to defer a portion of their annual compensation, and the Company may match a portion of the employees' contributions generally after the first six months of service. During the nine months ended September 30, 2021, the Company matched 100% of the first 4% of eligible employee compensation that was contributed to the 401(k) Plan. For the nine months ended September 30, 2021, the Company recognized expense for matching cash contributions to the 401(k) Plan totaling $82,153.

NOTE 9 – RELATED PARTY TRANSACTIONS

On August 1, 2012, the Company entered into an independent contractor master services agreement (the "Services Agreement") with Luceon, LLC, a Florida limited liability company, owned by our former Chief Technology Officer, David Ponevac. The Services Agreement provided that Luceon would provide support services including management, coordination or software development services and related services to duos. In January 2019, additional services were contracted with Luceon for TrueVue360™ primarily for software development through the provision of 7 additional full-time contractors located in Slovakia at a cost of $16,250 for January initially, rising to $25,583 after fully staffed, per month starting February 2019. This was in addition to the existing contract of $7,480 per month for duos for 4 full-time contractors which increased to $8,231 per month in June of 2019. During 2020 efforts in reducing cost, Luceon reduced its staff for the TrueVue360 software development team from a staff of 7 to 3 full-time employees at a cost of $11,666 per month starting June 1, 2020. As of January 1, 2021, the Company no longer records activities in TrueVue360 and has combined billings for a total of $20,986 per month. For the nine months ended September 30, 2021 and 2020, the total amount expensed is $93,422 and $272,376, respectively. The Company had no open accounts payable with Luceon at September 30, 2021. On May 14, 2021, the Company formally ended its relationship with Luceon in concert with the resignation of our Chief Technology Officer and as such there is no longer a related party relationship.

NOTE 10 – SUBSEQUENT EVENTS

On October 1, 2021, the Company formally divested its interests in the ITAM business including the DcVue™ software, OSPI patent and Data Center auditing operations. The business was sold for a nominal amount to an Employee who led that effort which also included the dormant subsidiary, TrueVue360. The Company will maintain and expand its TrueVue360 operations for Artificial Intelligence and will retain the brand "TrueVue360™" along with the associated software platform.

On October 1, 2021, the Company granted 20,000 non-qualified stock options to its Director of Engineering as part of a revised compensation package related to greatly increased responsibilities. The options were granted for 5 years at a strike price of $6.19 with 3-year vesting.

On October 15, 2021, the Company scheduled its move to a new facility in Jacksonville, Florida. The move will combine the Company's two separate work locations into one facility, which will allow for greater collaboration and also accommodate a larger anticipated workforce and manufacturing facility. The move is expected to begin on or around November 19, 2021, with all employees reporting to the new facility on December 1, 2021.

On November 1, 2021, the Company extended the leases of office space and warehouse space at its two current facilities for a period of 30 days to accommodate delays moving to its new headquarters.

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

This quarterly report on Form 10-Q and other reports filed by Duos Technologies Group, Inc. (the "Company"), and its operating subsidiaries, Duos Technologies, Inc. ("Duos") and TrueVue360, Inc ("TrueVue360", Duos Technologies Group, Inc. and Duos, collectively the "Company" "we", "our", and "us") from time to time with the Securities and Exchange Commission (the "SEC") contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company's management as well as estimates and assumptions made by Company's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the filings, the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan," 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 contained in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, relating to the Company's industry, the Company's operations and results of operations, and any businesses that the Company may acquire. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ 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. (the "Company") was incorporated in Florida on May 31, 1994 under the original name of Information Systems Associates, Inc. ("ISA"). Initially, our business operations consisted of consulting services for asset management of large corporate data centers and the development and licensing of information technology ("IT") asset management software. In late 2014, ISA entered negotiations with Duos Technologies, Inc. ("Duos"), for the purposes of executing a reverse triangular merger. This transaction was completed on April 1, 2015, whereby Duos became a wholly owned subsidiary of the Company. Duos was incorporated under the laws of Florida on November 30, 1990 for design, development and deployment of proprietary technology applications and turn-key engineered systems. The Company, based in Jacksonville, Florida, has a current staff of 65 people of which 57 are full time and is a technology and software applications company with a strong portfolio of intellectual property. The Company's core competencies, including advanced intelligent technologies, are delivered through its proprietary integrated enterprise command and control platform, Centraco®.

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

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

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

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

Through September 30, 2021, the Company also provided professional and consulting services for large data centers and had developed a system for the automation of asset information marketed as DcVue™. The Company had deployed its DcVue software at one beta site. This software was used by Duos' consulting auditing teams. DcVue was based upon the Company's OSPI patent which was awarded in 2010. The Company offered DcVue available for license to our customers as a licensed software product. (see Note 10)

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

Prospects and Outlook

The Company has made significant changes in the senior management team to include a new Chief Executive Officer with a wealth of experience successfully leading start-up and turn-around companies. In addition, the former divisional COO who has 20 years of experience with the Company delivering technology into rail, logistics, intermodal, and other industries, has been promoted to Chief Commercial Officer (CCO) of our wholly owned, operating subsidiary, Duos. Duos has also hired a divisional Chief Operating Officer (COO) with a strong background in operations in multiple former assignments. The Company's CFO will continue in the same role providing continuity and multiple years of public company experience. More recently, the Company's Board of Directors was strengthened with the addition of two very experienced leaders. The first is a retired Chief Operating Officer for a Class 1 railroad with more than 50 years of experience in the rail industry. The second is a retired Army General Officer and former CEO of a large, global security and training company contracting with multiple U.S. Government Agencies.

The new leadership team's focus is to improve operational and technical execution which will in turn enable the commercial side of the business to expand RIP and ALIS delivery into existing customers and to expand and diversify our current customer base. Even though COVID-19 is expected to still be an issue during the remainder of 2021 and potentially into 2022, the Company's primary customers have indicated readiness to order more equipment and services should the Company execute as expected on key deliverables over the next few months.

Additionally, the new CEO has directed that the Company make engineering and software upgrades to the RIP to meet anticipated Federal Railroad Association (FRA) and Association of American Railroad (AAR) standards. Similar upgrades are also being developed to improve the ALIS system. These upgrades are anticipated to be released throughout 2021 and are expected to drive revenue growth this year and beyond.

The Company is expanding its focus in the rail industry to encompass passenger transportation and is currently in the last stages of a bid for a large, multi-year contract with a national rail carrier. If successful, the Company is expected to deliver at least two RIP solutions along with a long-term services agreement in late 2021 or early 2022.

Although the Company's prospects and outlook are anticipated to be favorable for the remainder of 2021 and 2022, investing in our securities involves risk and careful consideration should be made before deciding to purchase our securities. There are many risks that affect our business and results of operations, some of which are beyond our control and unexpected macro events can have a severe impact on the business.

Results of Operation

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

Comparison for the Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

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

	For the Three Months Ended September 30, 2021	2020
Revenues	$ 1,740,457	$ 1,281,949
Cost of revenues	2,804,773	1,529,052
Gross margin	(1,064,316)	(247,103)
Operating expenses	1,382,177	2,459,740
Loss from operations	(2,446,493)	(2,706,843)
Other income (expense)	(3,944)	(1,736)
Net loss	$ (2,450,437)	$ (2,708,579)

Revenues

	For the Three Months Ended September 30, 2021	2020	% Change
Revenues:			
Technology systems	$ 1,153,150	$ 729,231	58%
Services and consulting	587,307	552,718	6%
Total revenues	$ 1,740,457	$ 1,281,949	36%

The significant increase in overall revenues for the quarter is from the progress in new installations in the technology systems portion of our business. Previously, the Company noted a comparable decrease in revenues for the equivalent quarter. The greater than expected decrease during the previous quarter of 2021 was the result of a delay in receiving anticipated "notices to proceed" for new contracts expected earlier in the year. During this quarter the anticipated "notice to proceed" on a significant upgrade to two key installations was received and some of that revenue was recognized during this quarter resulting in a 58% increase in revenues in comparison to the equivalent quarter a year ago. While anticipated orders continued to be delayed, we remain encouraged by the breadth and scope of recent bids which we have participated in indicating an expected surge in orders in late this year and in early 2022. However, management cautions that because of the delays in anticipated start dates, certain installations may produce revenues towards the end of the year, some of which may ultimately be recorded in 2022. Additionally, although the industries where we operate are showing early signs of recovery from the delays as a result of the Covid-19 pandemic, other macro-economic effects are anticipated to impact us, including the current supply chain disruptions which continue to extend deadlines for shipment of key components used in our technology systems. The effect of this will be to push revenue recognition later in the year or into 2022 as previously mentioned.

The Company's stable capital structure has thus far allowed us to weather the unexpected delays without significant operational impact and enabled us to pursue large projects requiring the ability to deploy major resources. In order to respond to the much longer lead times to procure equipment, management is anticipating additional demands on our working capital as the requirement to procure ahead of a formal award is becoming more critical. An additional effect of this is the ongoing investment by the Company in streamlining our project build and delivery process and quality control processes. The Company undertook a major review of operations in the final quarter of 2020 and made significant changes in staffing including additional engineering staff. A further review was conducted in the second quarter of 2021 with additional, material changes in staffing being implemented, particularly in our software engineering and AI teams. The Company previously implemented a "rapid development" initiative to be able to respond to market driven demand more quickly and although this has been successful, the impact has not been as anticipated due to the supply chain shortages as previously discussed. Although not fully visible in this quarter's financials, this effort has shortened delivery times on major projects and is expected to result in significant revenue growth in the last three months of this year and beyond once the materials are procured.

We continue to build a solid base of recurring revenue contracts as demonstrated by the continuing growth in services revenue. New maintenance contracts are being established as well as renewals of existing contracts and a shift to the next generation of technology systems which are currently being installed is anticipated to generate further growth in this area in 2022 and beyond. The services portion of revenues is driven by successful completion on projects and represents services and support for those installations. The Company expects to continue the growth with new, long term recurring revenue from existing customers which will be coming on-line in the next several months.

Cost of Revenues

	For the Three Months Ended September 30, 2021	2020	% Change
Cost of revenues:			
Technology systems	$ 1,869,812	$ 976,121	92%
Services and consulting	277,054	319,334	-13%
Overhead	657,907	233,597	182%
Total cost of revenues	$ 2,804,773	$ 1,529,052	83%

Cost of revenues largely comprises equipment, labor and overhead necessary to support the implementation of new systems and support and maintenance of existing systems. Cost of revenues on technology systems increased during the period compared to the equivalent period in 2020 by a greater amount than the increase in revenues. The main reason for the continuing high level of cost is the result of additional work being necessary on certain of the Company's installations to resolve newly identified quality issues which are now mostly resolved as well as higher costs of materials due to supply chain disruptions. There was also a significant increase in cost related to the new deployment of an undercarriage technology. Many of these costs were not envisioned by the original scope of work. However, the costs are expected to be much lower going forward as a percentage of the overall system price. As previously noted, the Company's organization and related cost structure was realigned to give the capability to manufacture, install and support multiple production systems simultaneously. Prior to this realignment, the Company's organization was focused on primarily research and development with implementation resources being allocated as necessary. In accordance with this shift in structure, certain staff were re-assigned or replaced, and new staff added in key areas, particularly software engineering, IT and AI.

In conjunction with this change, increased costs are now being recognized against project and support revenues with a similar reduction in costs previously recognized for research and development, engineering development and internal support. In concert with this, there is a continued focus on construction costs and savings through efficiency, but the Company has elected to expand its key employees in anticipation of expected sales growth in technology systems and services through the end of this year and in 2022. As previously discussed in the first quarter of 2021, certain expenses related to installed equipment upgrades were greater than anticipated for a variety of reasons including cost overruns on the first installation of new technologies and certain implementation inefficiencies related to Covid-19 restrictions such as extended quarantines and additional contract staff necessary to complete projects on time. These changes had a negative impact on the gross margin (see below), but this is expected to be a short-term impact, offset

by increases in revenue later in the year. It is also expected to have positive long-term impact as the Company is prepared to deliver a higher number of systems in a given period, with a shorter time of implementation and with better quality and reliability as the operations become standardized in anticipation of expected higher demand for systems, particularly in the rail industry.

Cost of revenues decreased on services and consulting versus the increase in revenues. This is a positive trend and is expected to continue as more of the Company's business is from recurring revenue. This decrease in cost of revenues in the quarter is the result of lower costs in servicing clients as well as the elimination of certain costs related to our ITAM business that were recorded in the equivalent period. Costs of service are expected to increase in future quarters at a slower rate than revenue growth as some of the streamlining of support took place earlier in the year and despite the additional resources allocated to these activities in anticipation of higher recurring revenue in 2022 and beyond.

Gross Margin

	For the Three Months Ended September 30,		
	2021	2020	% Change
Revenues	$ 1,740,457	$ 1,281,949	36%
Cost of revenues	2,804,773	1,529,052	83%
Gross margin	$ (1,064,316)	$ (247,103)	331%

As previously discussed, the Company has revamped its operations to support an anticipated increase in the number of new systems going forward. The resultant additional cost of revenues, while somewhat offset by decreases in G&A expenses, is not yet covered by a comparable increase in revenues as of the third quarter 2021. The overall negative gross margin was $1,064,316 versus the comparable period in 2020 which was a negative $247,103. The 36% increase in equivalent quarter revenues is a positive trend. The main reason for the continuing high level of cost is the result of additional work being necessary on certain of the Company's installations to resolve newly identified quality issues which are now mostly resolved as well as higher costs of materials due to supply chain disruptions. There was also a significant increase in cost related to the new deployment of an undercarriage technology. Many of these costs were not envisioned by the original scope of work. These higher costs are anticipated to be offset in the fourth quarter and beyond by higher revenues with the net result being a move to a positive gross margin as the business expands. In addition, we anticipate an improvement in the overall gross margin for the full year reporting in 2021, with much of the improvement coming in the fourth quarter. As previously discussed, certain macro-economic factors including the current supply chain issues could delay that improvement into 2022.

Operating Expenses

	For the Three Months Ended September 30,		
	2021	2020	% Change
Operating expenses:			
Sales and marketing	$ 361,820	$ 173,197	109%
Research and development	57,000	21,583	164%
Administration	963,357	2,264,960	-57%
Total operating expenses	$ 1,382,177	$ 2,459,740	-44%

Overall operating expenses were lower by 44% than the equivalent period in 2020. A significant increase in sales and marketing costs was more than offset by a substantial decrease in overall administration costs. This decrease was mostly due to the recording of the ex-CEO's separation agreement during the same period in 2020. Additionally, certain costs to support the organization as it operated at that time were eliminated as an offset to the increases in operations staff as described previously.

Loss from Operations

The loss from operations for the three months ended September 30, 2021, was $2,446,493, which was an improvement compared to a $2,706,843 loss from operations for the same period in 2020. The decrease in losses from operations during the quarter was the result of higher revenues recorded in the quarter as a consequence of the start of anticipated new projects and the increase in recurring service and support revenues. This increase in revenues was offset by higher cost of sales related to the recent organizational changes and certain cost overruns on the initial deployment of some newly developed systems. The combination of these result in negative gross margins for the quarter offset by significantly lower total operating expenses. The Company previously expected to achieve profitability in the fourth quarter through improvements in gross margin from higher revenues and lower operating costs although this is likely to be delayed into 2022 as the result of supply chain issues that are continuing to hamper completion of systems from the originally contemplated completion dates. Profitability in 2022 is anticipated with a growth in business from new contracts previously delayed through the first nine months of this year and with the effects of greater efficiencies in the deployment of new systems anticipated in the fourth quarter of 2021 and into 2022.

Other Income/Expense

Interest expense for the three months ended September 30, 2021 was $4,819 versus interest expense of $6,260 in the equivalent period in 2020. The decrease is due to a reduction in interest bearing debt that was repaid in the third quarter of 2021. Other income for the three months ended September 30, 2021 was $875 versus $4,524 for the same period in 2020. Interest rates are drastically lower in 2021 than 2020.

Net Loss

The net loss for the three months ended September 30, 2021 and 2020 was $2,450,437 and $2,708,579, respectively. The 10% decrease in net loss was mostly attributed to the increased revenue in the current quarter with lower ongoing expenses. Net loss per common share was $0.68 and $0.77 for the three months ended September 30, 2021 and 2020, respectively.

Comparison for the Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

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

	For the Nine Months Ended September 30,	
	2021	2020
Revenues	$ 4,543,879	$ 4,255,036
Cost of revenues	7,721,155	4,970,164
Gross margin	(3,177,276)	(715,128)

Operating expenses	4,039,985	5,506,686
Loss from operations	(7,217,261)	(6,221,814)
Other income (expense)	1,407,921	(99,703)
Net loss	$ (5,809,340)	$ (6,321,517)

Revenues

	For the Nine Months Ended September 30,		
	2021	2020	% Change
Revenues:			
Technology systems	$ 2,743,849	$ 2,840,538	-3%
Services and Consulting	1,800,030	1,414,498	27%
Total revenues	$ 4,543,879	$ 4,255,036	7%

For the first three quarters of 2021, there was a 7% overall increase in revenues. The increase was driven by new revenues being recorded after delays in receiving “notices to proceed” for anticipated new contracts earlier in the year pushed delivery dates into the second half of this year. There was a slight decrease in revenue from systems which was more than offset by a 27% increase in services revenue, most of which is recurring in nature. The Company is focusing on increasing its business from services and the increase is the result of new contracts for existing and new systems. This trend is expected to continue into 2022. While anticipated orders continue to be delayed, we are encouraged by the breadth and scope of recent bids in which we have participated, indicating an expected increase in orders in the fourth quarter. As previously discussed, management cautions that because of the delays in anticipated start dates, certain installations may produce revenues towards the end of the year, some of which may ultimately be recorded in 2022. Additionally, although the industries in which we operate are showing early signs of recovery from the delays as a result of the Covid-19 pandemic, other macro-economic effects are anticipated to impact us, including the current supply chain issues which are extending deadlines for shipment of key components used in our technology systems. The effect of this will be to push revenue recognition later in the year or into 2022 as previously mentioned.

The Company’s stable capital structure continues to allow us to weather the unexpected delays without significant operational impact and enables us to pursue large projects requiring the ability to deploy major resources. It should be noted that the Company may increase its working capital to account for an increase in pre-contract procurement activities to avoid a slowdown in revenues caused by delays in receiving certain components. The Company undertook a major review of operations in the final quarter of 2020 and made significant changes in staffing including additional engineering staff and revamping its software development and Artificial Intelligence staffing. Although in early 2021 the Company implemented a “rapid development” initiative which was intended to be able to respond to market driven demand more quickly, this effort has been somewhat negated by ongoing supply chain issues. Where this effort has shortened delivery times on major projects and was expected to result in significant revenue growth in the last six months of this year and beyond, the previously discussed supply chain issues have not allowed the anticipated benefits to be realized at this time. The Company is monitoring the situation and is intending to begin procuring materials ahead of contract award although this is likely to require an increase in working capital in the early part of 2022.

In 2020, the Company received a large ($2+ million) contract for AI related development from a large client which is expected to add revenues in the fourth quarter of 2021 or early 2022. Revenues from this initiative have been delayed due to another vendor of the client experiencing delays in producing certain deliverables. The Company is assisting the client with resolving this and is expecting revenues from this project to resume in the last quarter of the year. The Company also expects to continue the growth with new revenue from other existing customers which also will be coming on-line in the next several months. As previously noted, the slight decrease in technology systems revenues was offset by an increase in services revenue as the result of new maintenance contracts being established as well as renewals of existing contracts and a shift to the next generation of technology systems which are currently being installed. The services portion of revenues are driven by successful completion on projects and represent services and support for those installations. The Company expects to continue the growth with new, long term recurring revenue from existing customers which will be coming on-line in the next several months.

Cost of Revenues

	For the Nine Months Ended September 30,		
	2021	2020	% Change
Cost of revenues:			
Technology systems	$ 4,979,667	$ 3,390,211	47%
Services and consulting	986,757	827,532	19%
Overhead	1,754,731	752,421	133%
Total cost of revenues	$ 7,721,155	$ 4,970,164	55%

Cost of revenues increased by 55% for the nine months in 2021 over the equivalent nine months in 2020. This is the result of increased costs of deployment related to certain installations where new technologies were being deployed for the first time. Costs for services and consulting increased at a proportionate, albeit slightly slower rate, than the increase in revenues and this trend is expected to continue as certain economies of scale become evident late in the year and continue into 2022. Overhead more than doubled for the period reflecting higher costs for staffing current and anticipated projects although this rate of increase is expected to flatten in the fourth quarter of 2021 and beyond.

Gross Margin

	For the Nine Months Ended September 30,		
	2021	2020	% Change
Revenues	$ 4,543,879	$ 4,255,036	7%
Cost of revenues	7,721,155	4,970,164	55%
Gross margin	$ (3,177,276)	(715,128)	344%

As previously discussed, the Company has revamped its operations to support an anticipated increase in the number of new systems going forward. The resultant additional cost of revenues, while somewhat offset by decreases in SG&A expenses, is not yet covered by a comparable increase in revenues during the first nine months of 2021. The overall negative gross margin of $3,177,276 versus the comparable period in 2020 which was a negative $715,128 on a like for like basis, was the result of technology systems revenues

during the first nine months of 2021 being lower than anticipated for reasons related to delays in contract award and supply chain issues. Although we anticipate an improvement in the overall gross margin for the full year reporting in 2021, with much of those improvements coming in the fourth quarter of 2021, we continue to be cautious about the outlook until we observe that the issues previously discussed, have abated. Certain macro-economic factors including the current supply chain issues previously identified could delay that improvement into 2022.

Operating Expenses

	For the Nine Months Ended September 30,		
	2021	**2020**	**% Change**
Operating expenses:			
Sales and marketing	$ 1,024,872	$ 435,522	135%
Research and development	197,164	77,179	155%
Administration	2,817,949	4,993,985	-44%
Total operating expense	$ 4,039,985	$ 5,506,686	-27%

Operating expenses were lower by 27% than the equivalent period in 2020 reflecting the decrease in resources related to the Company's transition to production from the previous research and development focus. Sales and marketing expense increased due to additional resources focused on growing and supporting the Company's projected sales increase. Sales personnel are starting to travel with the gradual easing of restrictions due to the Covid-19 pandemic. Research and development expenses increased with a renewed focus on developing key technologies, notably in the areas of machine learning and artificial intelligence. Administration expenses decreased mostly due to staff re-alignment. These decreases are expected to substantially offset the increased costs allocated to technology systems implementations with potential gains coming with an anticipated increase in new contracts in 2022.

Loss From Operations

The loss from operations for the nine months ended September 30, 2021 was $7,217,261 and the loss from operations for the same period in 2020 was $6,221,814. The 16% increase in loss from operations was mostly due to the slight decrease in revenue for the period and much lower than usual gross margin for the nine-month period ended September 30, 2021.

Interest Expense

Interest expense for the nine months ended September 30, 2021 was $16,580 and the interest expense for same period in 2020 was $133,435. The decrease is related to the Company's largely debt free capital structure.

Other Income

Other income for the nine months ended September 30, 2021 and 2020 was $1,424,501 and $33,732, respectively. The increase in other income is due to the forgiveness on the PPP Cares Act Loan as well as a higher balance in the money market banking account for the first nine-month period in 2021.

Net Loss

The net loss for the nine months ended September 30, 2021 and 2020 was $5,809,340 and $6,321,517, respectively. The 8.1% decrease in net loss is mostly attributed to the impact of the Cares Act PPP loan forgiveness. Net loss per common share was $1.63 and $1.95 for the nine months ended September 30, 2021 and 2020, respectively.

Liquidity and Capital Resources

As of September 30, 2021, the Company has a working capital deficit of $160,000 and a net loss of $5,809,340 for the nine months ended September 30, 2021.

Cash Flows

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

	September 30, 2021	**September 30, 2020**
Net cash used in operating activities	$ (5,522,668)	$ (4,223,911)
Net cash used in investing activities	(310,776)	(224,586)
Net cash provided by financing activities	4,122,315	8,508,830
Net increase (decrease) in cash	$ (1,711,129)	$ 4,060,333

Net cash used in operating activities for the nine months ended September 30, 2021 was $5,522,668 and net cash used during the same period of 2020 was $4,223,911. The increase in net cash used in operations for the nine months ended September 30, 2021 was the result of higher expenditures related to current projects as previously discussed as well as expenditures related to future project execution in anticipation of new projects starting in the fourth quarter of 2021. In addition, there are several changes in assets and liabilities compared to the previous period that decreased the use of cash in operations. Notable changes are an increase in deferred revenue as the result of an increase in pre-paid service contracts offset by decreases in contract liabilities and lease obligations. The effects of other changes were largely neutral.

Net cash used in investing activities for the nine months ended September 30, 2021 and 2020 were $310,776 and $224,586, respectively, representing an increase in investments in various fixed assets during the first half of 2021 related to new technology offerings and preparation for the anticipated new project starts in the fourth quarter of 2021 and 2022.

Net cash provided by financing activities for the nine months ended September 30, 2021 was $4,122,315 and for the same period of 2020 was $8,508,830. Cash flows provided by financing activities during the nine-month period in 2020 were primarily attributable to a significant capital raise undertaken during that period in conjunction with listing on the Nasdaq Capital Market. Cash flows from financing activities during the first nine months of 2021 were primarily attributable to the issuance of Series C Convertible Preferred Stock for $4,500,000. These activities created sufficient cash and positive working capital including a reserve allowing us to operate through 2021 in anticipation of projected business which alleviated the previous substantial doubt related to a going concern and the need for a going concern risk disclosure. Due to the ongoing delays in both procuring new business through the third quarter and the associated supply chain issues that arise when execution is required, the Company now anticipates that substantial doubt may now exist and the requirement for a going concern risk disclosure at this time.

Previously, we have funded our operations primarily through the sale of our equity (or equity linked) and debt securities. During 2021, we have funded our operations through a combination of a recent capital raise, revenues generated, and cash received from ongoing project execution and associated maintenance revenues. As of November 11, 2021, we had cash on hand of approximately $797,000, including $253,000 of uncollected cash. We have approximately $135,000 in monthly lease and other mandatory payments,

not including payroll and ordinary expenses which are due monthly.

On a long-term basis, our liquidity is dependent on continuation and expansion of operations and receipt of revenues. Our current capital and revenues are no longer enough to fund operations for at least the next 12 months. The Company cannot currently quantify the uncertainty related to the pandemic and its effects on the business in the coming quarters. Additional factors may emerge including delays in the availability of certain components which may further delay the completion of current and anticipated technology systems installations. This will be partially offset by the addition of new service contracts that started in 2021.

Demand for our products and services will be dependent on, among other things, continuing market acceptance of our products and services, the technology market in general, and general economic conditions, which are cyclical in nature and are currently impacted by the Covid-19 pandemic and emerging supply chain issues for key components. 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 continue to be adversely affected by this situation as well as the potential for a prolonged recessionary period.

Going Concern and Liquidity

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

As reflected in the accompanying unaudited consolidated financial statements, the Company had a net loss of $5,809,340 for the nine months ended September 30, 2021. During the same period, net cash used in operating activities was $5,522,668. The working capital deficit and accumulated deficit as of September 30, 2021 were $160,000 and $45,297,490, respectively. In previous financial reports, the Company had raised substantial doubt about continuing as a going concern. This was principally due to a lack of working capital prior to an underwritten offering which was completed during the first quarter of 2020 (the "2020 Offering") and a further capital raise in the first quarter of 2021.

Upon completion of the 2020 Offering, management raised sufficient working capital to meet its needs for the next 12-months without the need to raise further capital. Since the advent of the Covid-19 pandemic, the Company has experienced a significant slowdown in closing new projects due to cautious actions by current and potential clients. We continue to be successful in identifying new business opportunities and are focused on re-establishing a backlog of projects. Most importantly, the Company's success in increasing its working capital surplus after receiving proceeds from the 2020 Offering of more than $8,200,000 and more recently, in the first quarter of 2021, receiving net proceeds of $4,500,000 from the issuance of Series C Preferred Stock to two large shareholders, gave us the capital required to fund the fundamental business changes that we undertook in the last quarter of 2020, further changes in the second quarter of 2021 and maintenance of our business strategy overall. In addition, the Company was successful in securing a loan of $1,410,270 during the second quarter of 2020 from the Small Business Administration via the PPP/CARES Act program which further bolstered the Company's cash reserves. This loan was forgiven in the first quarter and leaves the Company essentially debt free. Management has been taking and continues to take actions including, but not limited to, elimination of certain costs that did not contribute to short term revenue, and re-aligning both management and staffing with a focus on improving certain skill sets necessary to build growth and profitability and focusing product strategy on opportunities that are likely to bear results in the relatively short term. During the first nine months of 2021, management has taken further significant actions including reorganizing our engineering and technical teams and selectively improving organizational efficiency to effectively grow the business as the expected order flow resumes late in 2021 and 2022.

Management believes that, at this time, the conditions in our market space with ongoing contract delays, the consequent need to procure certain materials in advance of a binding contract and the additional time needed to execute on new contracts have put a strain on our cash reserves and that because of these factors, there is substantial doubt for the Company to continue as a going concern for a period of twelve months from the issuance of this report. We were executing the plan to grow our business and achieve profitability without the requirement to raise additional capital for existing operations. Due to the various delays encountered, Management evaluated our requirements in the past 90 days and has determined that the Company currently has sufficient cash to operate for the next six months. As part of its evaluation, the Company has determined that the previously sufficient levels of working capital must be bolstered in order to allow the Company to execute its growth plans with identified business expected to be executed in 2022. As previously noted, the Company raised $4,500,000 from existing shareholders through the issuance of Series C Convertible Preferred Stock. Although additional investment is not assured, the Company is comfortable that it would be able to raise sufficient capital to support expanded operations based on an anticipated increase in business activity. In the long run, the continuation of the Company as a going concern is dependent upon the ability of the Company to continue executing the plan described above, generate enough revenue, and attain consistently profitable operations. Although the current global pandemic related to the coronavirus (Covid-19) has affected our operations, we now believe that this is expected to be an ongoing issue and that our working capital assumptions must now reflect this new reality. The Company cannot currently quantify the uncertainty related to the pandemic and its effects on our customers in the coming quarters. We have analyzed our cash flow under "stress test" conditions and have determined that we have sufficient liquid assets on hand to maintain operations for at least six months from the date of this report.

Off Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

Accounts Receivable

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

Share-Based Compensation

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

Determining Fair Value Under ASC 718-10

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing formula. This fair value is then amortized on a straight-line basis over the

requisite service periods of the awards, which is generally the vesting period. The Company's determination of fair value using an option-pricing model is affected by the stock price as well as assumptions regarding a number of highly subjective variables.

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

Revenue Recognition

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

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

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

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

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

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

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

Use of Estimates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the third quarter ended September 30, 2021 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

Duos is highly dependent on certain suppliers to deliver components such as computer chips, advanced optical devices, and high-powered servers which are critical to the manufacture of our inspection portals and a shortage of key components, such as semiconductors, will delay implementation at customer sites and recognition of revenue. Our products contain components that we source globally from suppliers who, in turn, source components from their suppliers. If there is a shortage of a key component in our supply chain, and the component cannot be easily sourced from a different supplier, the shortage may delay completion of an installation. For example, the Railcar Inspection Portal (RIP), contains up to 25 different advanced cameras, multiple computer servers and other electronic components. A global shortage of microchips has been reported since early 2021 and we are experiencing various levels of impact on our being able to procure semiconductors that are used in those devices. The semiconductor supply chain is complex, and a constrained wafer capacity is occurring deep in the chain. Wafers have a long lead time for production, in some cases up to 30 weeks, which further exacerbates the shortage. When global automakers resumed vehicle production in 2020 – even more quickly than some expected – semiconductor supplies became further strained. A combination of these factors, including increased demand for consumer electronics and supplier shutdowns due to COVID-19 is contributing to the long lead times for key components. A shortage of key components can cause a significant disruption to our production schedule and have a substantial adverse effect on our financial condition or results of operations.

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

None

Item 3. Defaults Upon Senior Securities.

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

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None

Item 6. Exhibits.

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

* Filed herewith
** Furnished herewith

SIGNATURES

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

DUOS TECHNOLOGIES GROUP, INC.

Date: November 15, 2021

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

Date: November 15, 2021

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

Exhibit 31.1

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

I, Charles P. Ferry, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 15, 2021

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

Exhibit 31.2

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

I, Adrian G. Goldfarb, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 15, 2021

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

EXHIBIT 32.1

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

In connection with this Quarterly Report of Duos Technologies Group, Inc. (the "Company"), on Form 10-Q for the period ended September 30, 2021, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Charles P. Ferry, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Such Quarterly Report on Form 10-Q for the period ended September 30, 2021, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in such Quarterly Report on Form 10-Q for the period ended September 30, 2021, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 15, 2021

By: */s/* Charles P. Ferry

Charles P. Ferry
Chief Executive Officer

EXHIBIT 32.2

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

In connection with this Quarterly Report of Duos Technologies Group, Inc. (the "Company"), on Form 10-Q for the period ended September 30, 2021, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Adrian G. Goldfarb, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Such Quarterly Report on Form 10-Q for the period ended September 30, 2021, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in such Quarterly Report on Form 10-Q for the period ended September 30, 2021, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 15, 2021

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