

# DUOS TECHNOLOGIES GROUP, INC.

## FORM 10-Q (Quarterly Report)

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

FORM 10-Q

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

For the quarterly period ended March 31, 2025

OR

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

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

Commission file number 000-55497

**Duos Technologies Group, Inc.**

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

**Florida**

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

**65-0493217**

*(IRS Employer Identification No.)*

**7660 Centurion Parkway, Suite 100, Jacksonville, Florida 32256**

*(Address of principal executive offices)*

**(904) 296-2807**

*(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 ☐

Non-accelerated filer ☒

Emerging growth company ☐

Accelerated filer ☐

Smaller reporting 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 May 9, 2025, the registrant has one class of common equity, and the number of shares outstanding of such common equity is 11,653,905.

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# PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

### DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	March 31, 2025 (Unaudited)	December 31, 2024
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,799,281	\$ 6,266,296
Accounts receivable, net	215,060	109,007
Accounts receivable, net - related parties	1,760,625	294,434
Contract assets	700,458	635,774
Inventory	520,122	605,356
Prepaid expenses and other current assets	468,252	176,338
Note receivable, net	—	—
Total Current Assets	7,463,798	8,087,205
Inventory - non current	196,315	196,315
Property and equipment, net	3,300,754	2,771,779
Operating lease right of use asset - Office Lease	3,937,256	4,028,397
Financing lease right of use asset - Edge Data Centers	1,943,547	2,019,180
Security deposit	500,000	500,000
OTHER ASSETS:		
Equity Method Investment - Sawgrass APR Holdings LLC	7,233,000	7,233,000
Intangible Asset, net	9,043,996	9,592,118
Patents and trademarks, net	133,714	127,300
Software development costs, net	334,960	403,383
Total Other Assets	16,745,670	17,355,801
TOTAL ASSETS	\$ 34,087,340	\$ 34,958,677
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 698,518	\$ 969,822
Notes payable - financing agreements	129,914	17,072
Accrued expenses	451,130	373,251
Operating lease obligation - Office Lease -current portion	803,536	798,556
Financing lease obligation - Edge Data Centers - current portion	487,695	367,451
Notes payable, net of discount - related parties	1,027,707	1,758,396
Contract liabilities, current	3,001,352	3,188,518
Contract liabilities, current – related parties	7,366,500	8,616,500
Total Current Liabilities	13,966,352	16,089,566
Contract liabilities, less current portion	6,851,513	7,399,634
Contract liabilities, less current portion – related parties	2,712,375	3,616,500
Operating lease obligation - Office Lease, less current portion	3,767,106	3,867,042
Financing lease obligation - Edge Data Centers, less current portion	1,638,040	1,724,604
Total Liabilities	28,935,386	32,697,346
Commitments and Contingencies (Note 8)		
STOCKHOLDERS' EQUITY:		
Preferred stock: \$0.001 par value, 10,000,000 authorized, 9,441,000 shares available to be designated		

Series A redeemable convertible preferred stock, \$10 stated value per share, 500,000 shares designated; 0 and 0 issued and outstanding at March 31, 2025 and December 31, 2024, respectively, convertible into common stock at \$6.30 per share	—	—
Series B convertible preferred stock, \$1,000 stated value per share, 15,000 shares designated; 0 and 0 issued and outstanding at March 31, 2025 and December 31, 2024, respectively, convertible into common stock at \$7 per share	—	—
Series C convertible preferred stock, \$1,000 stated value per share, 5,000 shares designated; 0 and 0 issued and outstanding at March 31, 2025 and December 31, 2024, respectively, convertible into common stock at \$5.50 per share	—	—
Series D convertible preferred stock, \$1,000 stated value per share, 4,000 shares designated; 999 and 1,299 issued and outstanding at March 31, 2025 and December 31, 2024, respectively, convertible into common stock at \$3.00 per share	1	1
Series E convertible preferred stock, \$1,000 stated value per share, 30,000 shares designated; 13,500 and 13,500 issued and outstanding at March 31, 2025 and December 31, 2024, respectively, convertible into common stock at \$2.61 per share	14	14
Series F convertible preferred stock, \$1,000 stated value per share, 5,000 shares designated; 0 and 0 issued and outstanding at March 31, 2025 and December 31, 2024, respectively, convertible into common stock at \$6.20 per share	—	—
Common stock: \$0.001 par value; 500,000,000 shares authorized, 11,655,229 and 8,922,576 shares issued, 11,653,905 and 8,921,252 shares outstanding at March 31, 2025 and December 31, 2024, respectively	11,654	8,921
Additional paid-in-capital	81,745,409	76,777,856
Accumulated deficit	(76,447,672)	(74,368,009)
Sub-total	5,309,406	2,418,783
Less: Treasury stock (1,324 shares of common stock at March 31, 2025 and December 31, 2024)	(157,452)	(157,452)
Total Stockholders' Equity	5,151,954	2,261,331
Total Liabilities and Stockholders' Equity	\$ 34,087,340	\$ 34,958,677

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 March 31,	
	2025	2024
<b>REVENUES:</b>		
Technology systems	\$ 64,684	\$ 269,855
Services and consulting	972,751	800,825
Services and consulting – related parties	3,914,750	—
Total Revenues	4,952,185	1,070,680
<b>COST OF REVENUES:</b>		
Technology systems	232,264	583,437
Services and consulting	748,194	392,611
Services and consulting - related parties	2,658,068	—
Total Cost of Revenues	3,638,526	976,048
<b>GROSS MARGIN</b>	<b>1,313,659</b>	<b>94,632</b>
<b>OPERATING EXPENSES:</b>		
Sales and marketing	294,975	553,486
Research and development	424,431	382,142
General and administration	2,383,881	1,920,050
Total Operating Expenses	3,103,287	2,855,678
<b>LOSS FROM OPERATIONS</b>	<b>(1,789,628)</b>	<b>(2,761,046)</b>
<b>OTHER INCOME (EXPENSES):</b>		
Interest expense	(322,577)	(445)
Other income, net	32,542	9,182
Total Other Income (Expenses), net	(290,035)	8,737
<b>NET LOSS</b>	<b>\$ (2,079,663)</b>	<b>\$ (2,752,309)</b>
Basic and Diluted Net Loss Per Share	<b>\$ (0.18)</b>	<b>\$ (0.38)</b>
Weighted Average Shares-Basic and Diluted	11,390,016	7,306,949

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 Months Ended March 31, 2025 and 2024**  
**(Unaudited)**

	Preferred Stock B		Preferred Stock C		Preferred Stock D		Preferred Stock E		Preferred Stock F		Common Stock		Additional Paid-in- Capital	Accumulated Deficit	Treasury Stock	Total	
	# of Shares	Amount	# of Shares	Amount	# of Shares	Amount	# of Shares	Amount	# of Shares	Amount	# of Shares	Amount					
Balance December 31, 2023	—	\$ —	—	\$ —	—	1,299 \$	1	11,500 \$	12	— \$	—	7,306,663 \$	7,306	\$69,120,199	\$(63,603,552)	\$(157,452)	\$ 5,366,514
Series D convertible preferred stock issued	—	—	—	—	620	1	—	—	—	—	—	—	—	619,999	—	—	620,000
Series E convertible preferred stock issued	—	—	—	—	—	—	2,125	2	—	—	—	—	—	2,125,000	—	—	2,125,002
Stock options compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	141,204	—	—	141,204
Stock issuance cost	—	—	—	—	—	—	—	—	—	—	—	—	—	(36,188)	—	—	(36,188)
Stock issued for services	—	—	—	—	—	—	—	—	—	—	—	8,655	9	37,491	—	—	37,500
Stock Compensation under ESPP	—	—	—	—	—	—	—	—	—	—	—	—	—	18,116	—	—	18,116
Net loss for the three months ended March 31, 2024	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,752,309)	—	(2,752,309)
Balance March 31, 2024	—	\$ —	—	\$ —	—	1,919 \$	2	13,625 \$	14	— \$	—	7,315,318 \$	7,315	\$72,025,821	\$(66,355,861)	\$(157,452)	\$ 5,519,839
Balance December 31, 2024	—	\$ —	—	\$ —	—	1,299 \$	1	13,500 \$	14	— \$	—	8,922,576 \$	8,921	\$76,777,856	\$(74,368,009)	\$(157,452)	\$ 2,261,331
Series D convertible preferred stock converted to common stock	—	—	—	—	(300)	—	—	—	—	—	—	100,000	100	(100)	—	—	—
Common stock issued for cash under ATM	—	—	—	—	—	—	—	—	—	—	—	633,683	634	3,954,306	—	—	3,954,940
Stock options compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	22,030	—	—	22,030
Restricted stock compensation	—	—	—	—	—	—	—	—	—	—	—	1,961,898	1,962	950,011	—	—	951,973
Stock issuance cost	—	—	—	—	—	—	—	—	—	—	—	—	—	(138,226)	—	—	(138,226)
Stock options exercised	—	—	—	—	—	—	—	—	—	—	—	27,712	28	107,897	—	—	107,925

Stock issued for services	—	—	—	—	—	—	—	—	—	—	9,360	9	49,991	—	—	50,000
Stock compensation under ESPP	—	—	—	—	—	—	—	—	—	—	—	—	21,644	—	—	21,644
Net loss for the three months ended March 31, 2025	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,079,663)	—	(2,079,663)
Balance March 31, 2025	—	\$ —	—	\$ —	999	\$ 1	13,500	\$ 14	—	\$ —	11,655,229	\$11,654	\$81,745,409	\$(76,447,672)	\$(157,452)	\$ 5,151,954

See accompanying condensed notes to the unaudited consolidated financial statements.



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

	For the Three Months Ended	
	March 31,	
	2025	2024
<b>Cash from operating activities:</b>		
<b>Net loss</b>	\$ (2,079,663)	\$ (2,752,309)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	712,388	158,208
Inventory write-off	25,000	—
Stock based compensation	995,647	159,320
Stock issued for services	50,000	37,500
Amortization of debt discount related to warrant liabilities	269,311	—
Amortization of operating lease right of use asset - Office Lease	91,142	83,348
Amortization of lease right of use asset - Edge Data Centers	75,633	—
Changes in assets and liabilities:		
Accounts receivable	(106,053)	866,373
Accounts receivable - related parties	(1,466,191)	—
Note receivable	—	(1,875)
Contract assets	(64,684)	(270,099)
Inventory	10,624	23,828
Prepaid expenses and other current assets	(42,467)	57,944
Accounts payable	(271,304)	(415,718)
Accrued expenses	77,879	76,370
Operating lease obligation - Office Lease	(94,956)	(82,306)
Lease obligation - Edge Data Centers	33,680	—
Contract liabilities	(2,889,411)	26,697
<b>Net cash used in operating activities</b>	(4,673,425)	(2,032,719)
Cash flows from investing activities:		
Purchase of patents/trademarks	(9,264)	(980)
Purchase of fixed assets	(572,359)	(8,830)
<b>Net cash used in investing activities</b>	(581,623)	(9,810)
Cash flows from financing activities:		
Repayments on financing agreements	(136,606)	(130,535)
Repayments of notes payable, related parties	(1,000,000)	—
Proceeds from common stock issued	3,954,940	—
Proceeds from exercise of stock options	107,925	—
Stock issuance cost	(138,226)	(36,188)
Proceeds from preferred stock issued	—	2,745,002
<b>Net cash provided by financing activities</b>	2,788,033	2,578,279
<b>Net increase (decrease) in cash</b>	(2,467,015)	535,750
<b>Cash, beginning of period</b>	6,266,296	2,441,842
<b>Cash, end of period</b>	\$ 3,799,281	\$ 2,977,592
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	\$ 3,865	\$ —
Taxes paid	\$ 15,945	\$ —
<b>Supplemental Non-Cash Investing and Financing Activities:</b>		
Notes issued for financing of insurance premiums	\$ 249,448	\$ 272,322
Transfer of inventory to fixed assets	\$ 49,609	\$ —

See accompanying condensed notes to the unaudited consolidated financial statements.



**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2025**  
**(Unaudited)**

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

**Nature of Operations**

Duos Technologies Group, Inc., through its operating subsidiaries, Duos Technologies, Inc., Duos Edge AI, Inc., and Duos Energy Corporation, (collectively the “Company”), specializes in machine vision and artificial intelligence to analyze fast moving objects such as trains, trucks, automobiles, and aircraft. This technology can help improve safety, maintenance, and operating metrics.

The Company is the inventor of the Railcar Inspection Portal (“RIP”) and is currently the rail industry leader for machine vision/camera wayside detection systems that include the use of Artificial Intelligence at speeds up to 125 mph. The RIP inspects a train at full speed from the top, sides, and bottom looking at Federal Railroad Administration/Association of American Railroads mandated safety inspection points. The system also detects illegal riders, which can assist law enforcement agencies. Each railcar is scanned with machine vision cameras and other sensors from the top, sides, and bottom, where images are produced within seconds of the railcar passing. These images can then be used by the customer to help prevent derailments, improve maintenance operations, and assist with security. The Company self-performs all aspects of hardware, software, Information Technology (“IT”), and Artificial Intelligence development and engineering. The Company maintains significant intellectual property and continues to be awarded additional patents for both the technology and methodologies used. The Company also has a proprietary portfolio of approximately 53 Artificial Intelligence “Use Cases” that automatically flag defects. The Company has deployed this system with several Class 1 railroads and one major passenger carrier and anticipates an increased demand in the future from railcar operators, owners, shippers, transit railroads as well as law enforcement agencies.

In 2024, the Company’s management team determined that it would be in the best interests of the Company and its shareholders to leverage the skills and expertise that have been built up since 2021 to expand into other markets. Duos will continue to develop industry solutions for its target markets addressing rail, trucking, aviation and other vehicle-based processes. In addition, the Company elected to develop new offerings based on its existing technology and formed a new subsidiary in July 2024 called Duos Edge AI (“Edge”). The objective of this new subsidiary is to market a special part of the RIP for the provision of high-speed and function processing of data and applications with a focus on reducing latency in response times to end-users. Duos has many years of experience via its expert staff in bringing these types of capabilities to remote locations, also known as “the edge”. Edge processing can be an extremely efficient and lower cost alternative to traditional data centers. The strategy for Edge is to serve rural communities, also known as Tier 3 and 4 markets, and install Edge data centers in these locations thereby providing access to high-speed communications and advanced processing capabilities as a substitute for solutions where large amounts of data are “backhauled” using “the Cloud”. Duos developed these capabilities as an adjunct to its RIP offerings due to the need for fast results (less than 60 seconds) in identifying defects and maintenance issues on moving railcars.

Also in late 2024, the Company formed a third subsidiary, Duos Energy Corporation (“Duos Energy”) with the express purpose of providing consulting services and solutions for the rapidly growing demand for electrical power outside of traditional utilities. As an outgrowth of its new Edge Data Center subsidiary, and the current expert staff on hand, the Company has engaged with multiple third parties to act in a consulting and ultimately asset management capacity whereby Duos staff will be engaged directly to supply this type of power solutions for multiple uses including for large data centers supporting AI “hyperscalers”. In conjunction with this, in late 2024, Duos engaged with Fortress Investment Group (“FIG”) to assist in FIG’s purchase of approximately 850 Mega Watts of electrical generation capacity (consisting of 30 mobile gas turbine generators) and associated equipment to support their installation and operation (“balance-of-plant”). In late November 2024, Sawgrass Buyer LLC, an entity formed and owned by FIG, executed an asset purchase agreement with Atlas Corporation, APR Energy Holdings Limited and a number of its wholly-owned affiliates (collectively, “APR”). Chuck Ferry, our CEO, was formerly the CEO of APR from 2018 to 2020. The transaction closed on December 31, 2024. At closing, Sawgrass Buyer LLC entered into an Asset Management Agreement (“AMA”) with the Company under which a substantial portion of Company staff, including certain members of the management team (including Mr. Ferry), would oversee operations of Sawgrass Buyer LLC. The AMA has a two-year term with customary cancellation provisions. At Closing, the Company also received a 5%, non-voting ownership interest in Sawgrass APR Holdings, LLC (“Sawgrass Parent”), the ultimate parent company of Sawgrass Buyer LLC. Subsequent to closing, Sawgrass Buyer LLC changed its name to New APR Energy, LLC (“New APR”).

**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2025**  
**(Unaudited)**

On December 31, 2024 the Company entered into an AMA agreement with New APR, an entity formed by the affiliates of FIG. Under the AMA, Duos Energy will manage the deployment and operations for a fleet of mobile gas turbines and “balance-of-plant” inventory, providing management, sales and operations functions to New APR in connection with the assets. In exchange for services to be performed under the AMA, the Company received an initial cash payment from New APR and common units in Sawgrass Parent. While the Company has board representation in Sawgrass Parent, its common units are non-voting and the Company does not control the board of directors of Sawgrass Parent. Where the Company has an interest in a Variable Interest Entity (“VIE”), it will consolidate any VIE in which the Company has a controlling financial interest and is deemed to be the primary beneficiary. A controlling financial interest has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both of the characteristics are met, the Company is considered to be the primary beneficiary and therefore will consolidate that VIE into our consolidated financial statements

Investments in partnerships, unincorporated joint ventures and LLCs that maintain specific ownership accounts for each investor are excluded from the scope of ASC 323-10. However, ASC 323-30 provides guidance on applying the criteria for equity method accounting to investments in partnerships, unincorporated joint ventures and LLCs. When an investor in a partnership, unincorporated joint venture or LLC has the ability to exercise significant influence over that investment, it should apply the equity method (ASC 323-10) by analogy (ASC 323-30-25-1).

Sawgrass Parent is deemed to be a VIE and the Company holds a 5% interest in Sawgrass Parent and an interest in the subsidiary New APR through the AMA, both of which are considered variable interests. However, the Company does not represent the primary beneficiary as it does not possess the ability to direct the activities that most significantly impact the economic performance of Sawgrass Parent. Accordingly, the Company does not consolidate Sawgrass Parent. Due to the Company’s interest in Sawgrass Parent, it was determined that the Company has significant influence over Sawgrass Parent. Therefore, the Company accounts for its investment in Sawgrass Parent as an Equity Method Investment.

The Company also concluded that the arrangement with Sawgrass Parent is within the scope of ASC 606, Revenue from contracts with customers, and the common units issued to the Company by Sawgrass Parent represented non-cash consideration. The initial carrying value of the equity method investment as of December 31, 2024, of \$7.2 million was measured equal to the fair value of the common units received for future services to be performed under the AMA. The Company recorded \$7.2 million of deferred revenue for services to be performed under the AMA. During the year ended December 31, 2024, the Company did not recognize any revenue associated with the AMA. Revenue recognition started on January 1, 2025.

The Company recorded the equity method investment in Sawgrass Parent of \$7.2 million, equal to the fair value of the common units as of December 31, 2024.

Under the terms of the AMA, Duos staff is conducting all conduct all operations for commercial engagement, planning and project management, installation and operations of the New APR assets. The new entity will share certain management functions with Duos including the CEO, COO, Chief Commercial Officer and General Counsel and other services will be provided by Duos in a combination of direct staffing with specific experience in the power generation industry and other functions as necessary via a “shared services” agreement. New APR will have its own President and Chief Financial Officer and while in the early stages, certain accounting staff will be supplied via the shared services arrangement, it is expected that New APR will develop its own accounting and administrative functions. It is expected that there will be a strong correlation between the two companies, particularly in the areas of Data Center power generation and business development and Duos is expected to participate in these opportunities in addition to the anticipated revenues from the AMA.

As a result of the relationships described above between Duos Energy Corporation and the FIG related entities, Sawgrass APR Holdings LLC (“Sawgrass Parent”) and New APR Energy, LLC (“New APR”) are considered related parties to the Company. (See Notes 3, 5, 6 and 10 for related party balances).

### **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 three months ended March 31, 2025 are not necessarily indicative of the results that may be expected for the year ending December 31, 2025 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, 2024 filed with the Securities and Exchange Commission (the “SEC”) on March 31, 2025.

### **Principles of Consolidation**

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

**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2025**  
**(Unaudited)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The most significant estimates in the accompanying unaudited consolidated financial statements include the initial valuation of a non-monetary transaction with a customer, valuation of intangible assets for impairment analysis, allowance on accounts receivable and notes receivable, valuation of common stock warrants received in exchange for an asset sale, valuation of deferred tax assets, valuation of other long-lived assets, estimates of net contract revenues and the total estimated costs to determine progress towards contract completion, valuation of inventory, estimates of the valuation of right of use assets and corresponding lease liabilities, valuation of warrants issued with debt, valuation of warrant liabilities, valuation of stock-based awards and the valuation of a minority interest in Sawgrass Parent. 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.

Due to the unavailability of Q1-2025 financials from Sawgrass Parent, our equity method investee, the Company has applied a one-quarter lag (in accordance with ASC 323-10-35-6) in reporting and recording the value of its 5% minority investment. The Company has determined that its 5% interest shall be recorded using the Equity Method in accordance with the terms of the Amended and Restated Limited Liability Company Agreement of Sawgrass APR Holding LLC (the "Agreement") whereby Net Profit and Net Loss for any Fiscal Year shall be allocated among the members in such a manner that, as of the end of such fiscal year, the Capital Account Balance of each Member, as increased by the Member's share of "minimum gain" and "partner minimum gain" (as such terms are used in Treasury Regulations Section 1.704-2), shall, to the extent possible, be equal to the amount which would have been distributed to such Member pursuant to a Hypothetical Liquidation, as defined in the Agreement, as of the end of the last day of such fiscal year. This approach is consistent with the equity method of accounting as outlined in ASC 323-10-35-6, which will be consistent for each quarter. Consequently, Duos will incorporate the financial results of the Sawgrass Parent into its Q2-2025 10-Q filing which will be applied using a management estimate, ensuring that the equity method is consistently applied.

Management believes that the use of estimates and assumptions in applying the equity method is reasonable.

**Reclassification**

Certain amounts in the prior period have been reclassified to conform to current period presentation. Balances in accounts receivable and deferred revenues were reclassified to related party accounts receivable and related party deferred revenues respectively. There was no net effect of this reclassification on the consolidated balance sheets.

**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 March 31, 2025, the balance in one financial institution exceeded federally insured limits by approximately \$2,980,899. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the Company's consolidated financial condition, results of operation and cash flows.

**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 three months ended March 31, 2025, three customers accounted for 60% (related party), 18% (related party) and 11% of revenues. For the three months ended March 31, 2024, three customers accounted for 31%, 30% and 26% of revenues. In most cases, there are no minimum contract values stated. Each contract covers an agreement to deliver a Railcar 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 may be paid annually in advance with revenues recorded ratably over the contract period.

At March 31, 2025, one customer, who is also a related party, accounted for 89% of accounts receivable. At December 31, 2024, three customers accounted for 73%, 17%, and 10% of accounts receivable. Much of the credit risk is mitigated due to the historical timely payments of our customers.

**Geographic Concentration**

For the three months ended March 31, 2025, approximately 14% of revenue was generated from three customers outside of the United States. For the three months ended March 31, 2024, approximately 61% of revenue was generated from three customers outside of the United States.

**Significant Vendors and Concentration of Credit Risk**

In some instances, the Company relies on a limited pool of vendors for key components related to the manufacturing of its subsystems. These vendors are primarily focused on camera, server, and lighting technologies integral to the Company's solution. Where possible, the Company seeks multiple vendors for key components to mitigate vendor concentration risk.



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**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 require 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 expenses, 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.

**Accounts Receivable**

On January 1, 2023, the Company adopted ASC 326, “Financial Instruments - Credit Losses”. In accordance with ASC 326, an allowance is maintained for estimated forward-looking losses resulting from the possible inability of customers to make the required payments (current expected losses). The amount of the allowance is determined principally on the basis of past collection experience and known financial factors regarding specific customers.

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

**Inventory**

Inventory consists primarily of spare parts and consumables and long-lead time components to be used in the production of our technology systems or in connection with maintenance agreements with customers. Any inventory deemed to be obsolete is written off. Inventory is stated at the lower of cost or net realizable value. Inventory cost is primarily determined using the weighted average cost method.

The Company classifies inventory as a current asset when it is expected to be sold or utilized in production within the normal operating cycle, typically twenty-four months. Inventory that is determined to be slow-moving or not expected to be sold or utilized within the next twenty-four months is reclassified to non-current assets under Non-current Inventory.

The assessment of slow-moving inventory is based on historical sales trends, demand forecasts, and management’s judgment regarding market conditions. Once reclassified, the inventory is reviewed annually for impairment, and any necessary write-downs are recognized in the consolidated statement of operations.

During the three months ended March 31, 2025, the Company recognized inventory shrinkage in the amount of \$25,000. The shrinkage was recorded as a reduction to the carrying value of inventory and recorded to cost of revenues as an expense in the period. The Company continuously evaluates the recoverability of its inventory. There were no material impacts on the Company's financial position as a result of the shrinkage.

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**Intangible Asset**

In May 2024, the Company recognized an intangible asset which represents digital image data rights received under a license agreement as non-monetary consideration under a five-year customer contract. The intangible asset will be amortized over the five-year contractual term.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided by the straight-line method over the estimated economic life of the property and equipment (three to five years). When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of operations. Leasehold improvements are expensed over the shorter of the term of the lease or the useful life.

**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. Software development costs are evaluated for impairment annually by comparing the net realizable value to the unamortized capitalization costs and writing these costs down to net realizable value.

**Patents and Trademarks**

Patents and trademarks which are stated at amortized cost relate to the development of video surveillance security system technology and are being amortized over 17 years.

**Long-Lived Assets**

The Company evaluates the recoverability of its property, equipment, and other long-lived assets, including finite-lived intangible assets, in accordance with FASB ASC 360-10-35-15 “Impairment or Disposal of Long-Lived Assets”, which requires recognition of impairment of long-lived assets in the event there are indicators of impairment and the net book values of such assets exceed the estimated future undiscounted cash flows attributable to such assets or the business to which such intangible assets relate. This guidance requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**Equity Method Investments**

If an investment qualifies for the equity method of accounting, the Company’s investment is recorded initially at cost and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. The net income or loss of an unconsolidated equity method investment is allocated to its investors in accordance with the provisions of the operating agreement of the entity. The allocation provisions in these agreements may differ from the ownership interest held by each investor. Differences, if any, between the carrying amount of our investment in the respective equity method investee and the Company’s share of the underlying equity of such equity method investee are amortized over the respective lives of the underlying assets as applicable. These items are reported as a single line item in the consolidated statements of operations as income or loss from investments in unconsolidated equity method investments. Investments are reviewed for changes in circumstance or the occurrence of events that suggest an other-than-temporary event where our investment may not be recoverable.

On December 31, 2024, the Company entered into an Asset Management Agreement (the “AMA”), with New APR, an entity formed by affiliates of FIG. Under the AMA, Duos Energy will manage the deployment and operations of a fleet of mobile gas turbines and balance-of-plant inventory, providing management, sales and operations functions to New APR in connection with the assets. In exchange for services to be performed under the AMA, the Company received an initial cash payment and common units in Sawgrass Parent. While the Company has board representation in Sawgrass Parent, its common units are non-voting and the Company does not control the board of directors of Sawgrass Parent.



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Where the Company has an interest in a Variable Interest Entities (“VIE”) it will consolidate any VIE in which the Company has a controlling financial interest and deemed to be the primary beneficiary. A controlling financial interest has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both of the characteristics are met, the Company is considered to be the primary beneficiary and therefore will consolidate that VIE into the consolidated financial statements.

Investments in partnerships, unincorporated joint ventures and LLCs that maintain specific ownership accounts for each investor are excluded from the scope of ASC 323-10. However, ASC 323-30 provides guidance on applying the criteria for equity method accounting to investments in partnerships, unincorporated joint ventures and LLCs. When an investor in a partnership, unincorporated joint venture or LLC has the ability to exercise significant influence over that investment, it should apply the equity method (ASC 323-10) by analogy (ASC 323-30-25-1).

Sawgrass Parent is deemed to be a VIE and the Company holds a 5% interest in the Parent and an interest in the subsidiary New APR through the AMA, both of which are considered variable interests. However, the Company does not represent the primary beneficiary as it does not possess the ability to direct the activities that most significantly impact the economic performance of Sawgrass Parent. Accordingly, the Company does not consolidate Sawgrass Parent. Due to the Company’s interest in Sawgrass Parent, it was determined that the Company has significant influence over Sawgrass Parent. Therefore, the Company accounts for its investment in Sawgrass Parent as an Equity Method Investment.

The Company also concluded that the arrangement with Sawgrass Parent is within the scope of ASC 606, Revenue from contracts with customers, and the common units issued to the Company by Sawgrass Parent represented non-cash consideration. The initial carrying value of the equity method investment as of December 31, 2024 of \$7.2 million was measured equal to the fair value of the common units received for future services to be performed under the AMA. The Company recorded \$7.2 million of deferred revenue for services to be performed under the AMA. During the year ended December 31, 2024, the Company did not recognize any revenue associated with the AMA. The Company will initially record the equity method investment in Sawgrass Parent of \$7.2 million, equal to the fair value of the common units as of December 31, 2024. Revenue recognition started January 1, 2025.

The Company assesses its equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. No impairment losses were recognized during the three months ended March 31, 2025.

#### **Product Warranties**

The Company has a 90-day warranty period for materials and labor after final acceptance of a project. If any parts are defective they are replaced under our vendor warranty, which is usually 12 to 36 months. Final acceptance terms vary by customer. Some customers have a cure period for any material deviation and if the Company fails or is unable to correct any deviations, a full refund of all payments made by the customer will be arranged by the Company. As of March 31, 2025 and December 31, 2024, the warranty costs have been de-minimis, therefore no accrual of warranty liability has been made.

#### **Loan Costs**

Loan costs paid to lenders, or third parties are recorded as debt discounts to the related loans and amortized to interest expense over the loan term.

#### **Sales Returns**

Our systems are sold as integrated systems and there are no sales returns allowed

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**Revenue Recognition**

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

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

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

The Company generates revenue from four sources:

- (1) Technology Systems
- (2) AI Technologies
- (3) Technical Support including related party revenues from the AMA agreement which began in January 2025
- (4) Consulting Services including related party revenues from the AMA agreement which began in January 2025

**Technology Systems**

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

Accordingly, the Company 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 to be both probable and reasonably estimable.

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#### AI Technologies

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

#### Technical Support

Technical support services are provided on both an as-needed and extended-term basis and may include providing both parts and labor. Maintenance and technical support provided outside of a maintenance contract are on an “as-requested” basis, and revenue is recognized over time as the services are provided. Revenue for maintenance and technical support provided on an extended-term basis is recognized over time ratably over the term of the contract. This includes related party revenues from the AMA agreement, which began on January 1, 2025, related to the installation and maintenance of certain assets deployed by New APR.

#### Consulting Services

The Company’s consulting services business generates revenues under contracts with customers from four sources: (1) Professional Services (consulting and auditing and including related party revenues from the AMA agreement which began in January 2025); (2) Software licensing with optional hardware sales; (3) Customer service training and (4) Maintenance/support.

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

#### **Multiple Performance Obligations and Allocation of Transaction Price**

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

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

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**Cost of Revenues**

Cost of revenues primarily includes inventory, shipping, certain fixed labor and overhead and allocated depreciation and amortization as applicable.

**Advertising**

The Company expenses the cost of advertising. During the three months ended March 31, 2025 and 2024, there were no advertising costs.

**Stock-Based Compensation**

The Company accounts for employee and non-employee stock-based compensation in accordance with ASC 718-10, "Share-Based Payment," which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including stock options, restricted stock units, and employee stock purchases based on estimated fair values. The stock-based compensation carries a graded vesting feature subject to the condition of time of employment service with awarded stock-based compensation tranches vesting evenly upon the anniversary date of the award.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing formula. In accordance with ASC 718-10-35-8, the Company elected to recognize the fair value of the stock award using the graded vesting method as time of employment service is the criteria for vesting. 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.

For restricted stock awards, fair value is measured at the closing market price of the Company's common stock on the grant date. That value is then recognized over the requisite vesting period.

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.

**Income Taxes**

The Company accounts for income taxes in accordance with the Financial Accounting Standards Board FASB Accounting Standards Codification ("ASC") 740, Income Taxes, which requires the recognition of deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company evaluates all significant tax positions as required by ASC 740. As of March 31, 2025, the Company does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

Any penalties and interest assessed by income taxing authorities are included in operating expenses.

The federal and state income tax returns of the Company are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed. Tax years 2022, 2023 and 2024 remain open for potential audit.

**Earnings (Loss) Per Share**

Basic earnings per share (EPS) are computed by dividing the 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 March 31, 2025, there were (i) an aggregate of zero outstanding warrants to purchase shares of common stock, (ii) employee stock options to purchase an aggregate of 475,368 shares of common stock, (iii) 333,000 common shares issuable upon conversion of Series D Convertible Preferred Stock, and (iv) 5,172,416 common shares issuable upon conversion of Series E Convertible Preferred Stock, all of which were excluded from the computation of diluted net earnings per share because their inclusion would have been anti-dilutive.

At March 31, 2024, there were (i) an aggregate of 44,644 outstanding warrants to purchase shares of common stock, (ii) employee stock options to purchase an aggregate of 1,387,775 shares of common stock, (iii) 639,667 common shares issuable upon conversion of Series D Convertible Preferred Stock, and (iv) 4,541,667 common shares issuable upon conversion of Series E Convertible Preferred Stock, all of which were excluded from the computation of diluted net earnings per share because their inclusion would have been anti-dilutive.

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**Leases**

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

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

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

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

**Recent Accounting Pronouncements**

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

In December 2023, the FASB issued ASU No. 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU 2023-09 requires companies to disclose, on an annual basis, specific categories in the effective tax rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. Further, ASU 2023-09 requires companies to disclose additional information about income taxes paid. ASU 2023-09 is effective for annual periods beginning January 1, 2025 and will be applied on a prospective basis with the option to apply the standard retrospectively. The Company evaluated the disclosure impact of ASU 2023-09; and determined the standard will not have an impact on the Company’s consolidated financial statements.

In November 2024, the FASB issued ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), which requires entities to provide more detailed disaggregation of expenses in the income statement, focusing on the nature of the expenses rather than their function. The new disclosures will require entities to separately present expenses for significant line items, including but not limited to, depreciation, amortization, and employee compensation. Entities will also be required to provide a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively, disclose the total amount of selling expenses and, in annual reporting periods, provide a definition of what constitutes selling expenses. This pronouncement is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027, with early adoption permitted. The Company does not expect the adoption of this new guidance to have a material impact on the 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.

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**NOTE 2 – LIQUIDITY**

Under Accounting Codification ASC 205, 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 consolidated financial statements, the Company had a net loss of \$2,079,663 for the three months ended March 31, 2025. During the same period, cash used in operating activities was \$4,673,425. The working capital deficit and accumulated deficit as of March 31, 2025, were \$6,502,554 and \$76,447,672, respectively. In previous financial reports, the Company had raised substantial doubt about continuing as a going concern. This was prior to securities underwritten offerings, private placements and more recently, funds raised via an ATM as well as an advance from New APR all of which were completed during 2022, 2023, 2024 and 2025 as well.

As previously noted, the Company was successful during 2023 in raising gross proceeds of over \$11,500,000 from the sale of Series E and F Convertible Preferred Stock. Additionally, in the first and second quarters of 2024, the Company raised gross proceeds of \$2,995,002 from the issuance of a combination of Series D and E Preferred Stock (See Note 9). The Company successfully raised approximately \$3,544,689 in gross proceeds through its At-The-Market (ATM) offering program in 2024 and secured an additional \$3,954,940 in gross proceeds during the first two months of 2025. Additionally, during the second quarter of 2025, the Company will again have access to its S-3 “shelf registration” statement allowing the Company to sell additional securities. At the time of this document, the Company estimates that it will have available capacity on its shelf registration which it can utilize to bolster working capital and growth of the business in the event that revenues from its recently executed AMA with New APR do not provide sufficient cash flow to support operations. 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 its business plan, generate enough revenue, and attain consistently profitable operations. We have analyzed our cash flow under “stress test” conditions and have determined that we have sufficient liquid assets on hand or available via the capital markets to maintain operations for at least twelve months from the issuance date of this report.

In addition, management has taken and continues to take actions including, but not limited to, elimination of certain costs that do not contribute to short term revenue, and re-aligning both management and staffing with a focus on improving certain skill sets necessary to build growth and profitability and focusing product strategy on opportunities that are likely to bear results in the relatively short term. The Company believes that, with the combination of commercial sales success, coupled with an S-3 shelf registration availability starting in the second quarter of 2025, it will have sufficient working capital to meet its obligations over the following twelve months. In the last twelve months the Company has seen growth in its contracted backlog as well as significant, positive signs from new commercial projects that indicate improvements in future revenues.

Management believes that, at this time, the conditions in our traditional market space with ongoing contract delays, the consequent need to procure certain materials in advance of a binding contract and the additional time needed to execute on new contracts previously reported could put a strain on our cash reserves. However, the anticipated steady cashflow from the AMA and the ability to raise capital via its shelf registration indicate there is no substantial doubt for the Company to continue as a going concern for a period of twelve months. We expect to continue executing the plan to grow our business and achieve profitability as previously discussed. The Company may selectively look at opportunities for fundraising in the future including potential debt offerings to support asset acquisition. Management has extensively evaluated our requirements for the next twelve months and has determined that the Company currently has sufficient cash and access to capital to operate for at least that period.

While no assurance can be provided, management believes that these actions provide the opportunity for the Company to continue as a going concern and to grow its business and achieve profitability with access to additional capital funding. Ultimately the continuation of the Company as a going concern is dependent upon the ability of the Company to continue executing the plan described above which was put in place in late 2024 and will continue in 2025 and beyond. These consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable were as follows at March 31, 2025 and December 31, 2024:

	March 31, 2025	December 31, 2024
Accounts receivable	\$ 215,060	\$ 185,044
Accounts receivable - related party	1,760,625	294,434
Allowance for credit losses	—	(76,037)
Accounts receivable, net	<u>\$ 1,975,685</u>	<u>\$ 403,441</u>

The Company recorded bad debt expense (recovery) of \$(76,307) and zero for the three months ended March 31, 2025 and 2024, respectively.

A summary of the activity related to our allowance for credit losses at March 31, 2025 and December 31, 2024 is summarized below.

	March 31, 2025	December 31, 2024
Allowance for credit losses, beginning balance	\$ (76,037)	\$ —
Allowance for credit losses provision	—	(76,037)
Less recoveries	76,037	—
Allowance for credit losses, ending balance	<u>\$ —</u>	<u>\$ (76,037)</u>

**NOTE 4 – INTANGIBLE ASSET**

In May 2024, the Company recorded an intangible asset with a fair value of \$11,161,428. This asset represents non-monetary consideration received under a 5-year customer contract, in which the Company will provide maintenance services to the customer. The intangible asset represents Digital Image data rights in the form of a license agreement received by the Company from the customer.

The fair value of the asset was determined on the contract inception date based on the standalone selling price of the service and goods to be provided to the customer under the 5-year contract since the Company could not reasonably estimate the fair value of the data rights received. The non-monetary transaction was accounted for in accordance with Accounting Standards Codification (ASC) 606-10-32-21 through ASC 606-10-32-24.

On the contract inception date, the Company recorded deferred revenue of \$11,161,428 as contract liabilities with a current and non-current component, and then immediately recognized amortization of \$199,008 of this deferred revenue relating to the completed pilot program for this contract. The remaining deferred revenue is being recognized over the 5-year term.

In accordance with ASC 350-30-35-1, the amortization for the intangible asset is based on its useful life and the useful life of an intangible asset is the period over which it is expected to contribute directly or indirectly to the future cash flows of that entity. Accordingly, amortization of the intangible asset is recognized over the life of the contract of five years.

In accordance with ASC 350-30-35-14, an intangible asset that is subject to amortization shall be reviewed for impairment if the carrying amount of the asset is not recoverable and exceeds its fair value. There is no indication of impairment at March 31, 2025.

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Intangible asset at March 31, 2025 and December 31, 2024 consists of:

	March 31, 2025	December 31, 2024
Intangible Asset, gross	\$ 11,161,428	\$ 11,161,428
Accumulated Amortization	(2,117,432)	(1,569,310)
Intangible Asset, net	<u>\$ 9,043,996</u>	<u>\$ 9,592,118</u>

Amortization of the intangible asset for the three months ended March 31, 2025 and the year ended December 31, 2024, was \$548,122 and zero, respectively.

The future amortization of the intangible asset is as follows:

Calendar Year	Amount
2025	\$ 1,644,362
2026	2,192,484
2027	2,192,484
2028	2,192,484
2029	822,182
Total Intangible Asset Amortization	<u>\$ 9,043,996</u>

**NOTE 5 – CASH ADVANCE PAYMENT – SAWGRASS HOLDINGS LLC**

	Amount
Cash as of December 31, 2024	\$ 5,000,000
Contract liabilities, current as of March 31, 2025	(3,750,000)
Revenue recognized for the three months ended March 31, 2025	<u>\$ 1,250,000</u>

In December 2024, the Company entered into a series of contracts with FIG under which the Company will deploy and operate a fleet of mobile gas turbines and balance of-plant inventory, providing management, sales and operations functions to New APR in connection with the assets. In exchange for services performed under the Asset Management Agreement (“AMA”), the Company received an advance cash payments and common units in Sawgrass Parent (see Note 6). The Company will account for the arrangement with New APR as Revenue from contracts with customers. New APR advanced the Company \$5.0 million in cash upon execution of the contract, which will be applied ratably on a monthly basis against amounts incurred under the AMA for a period of 12 months in 2025. In the event that the AMA is terminated within the first 12 months, any balance remaining of the advanced funds would be credited in full to Duos. The advanced consideration does not provide the benefit of financing as the cash will be consumed within the first year of the contract to align the interests of both parties under the AMA. As of March 31, 2025, deferred revenue under the arrangement was \$3.75 million, comprised of the \$5.0 million advance payment less \$1.25 million recognized as earned revenue under the AMA for the three months ended March 31, 2025.

**NOTE 6 – EQUITY INVESTMENT – SAWGRASS APR HOLDINGS LLC**

	March 31, 2025	December 31, 2024
Equity Investment - Sawgrass APR Holdings LLC	\$ 7,233,000	\$ 7,233,000

At the close of business December 31, 2024, Duos Energy Corporation, a subsidiary, executed an AMA with New APR to manage its operations. The Company’s CEO is also the CEO of New APR and the operations of New APR are housed in the same facility as the Company in Jacksonville, Florida.

The Company was issued 5% non-voting ownership interest in Sawgrass Parent, in the form of 25,882,353 common units, which is accounted for using the equity method. The Company determined the equity method was appropriate since Sawgrass Parent is considered a related party due to common management and the Company can exert significant influence over the operations of New APR. The Company concluded that the arrangement with New APR is within the scope of ASC 606, Revenue from contracts with customers, and the common units issued to the Company by Sawgrass Parent represented non-cash consideration under ASC 606-10-32-31. The initial carrying value as of December 31, 2024 of \$7.2 million was measured equal to the fair value of the common units received for future services to be performed under the AMA which will be recognized over a period of two years. The Company recorded \$7.2 million of an equity method investment asset and \$7.2 million of deferred revenue for services to be performed under the AMA. For the three months ended March 31, 2025, the Company did not recognize any equity in net income (loss) of the investee.

During the three months ended March 31, 2025, the Company recognized \$904,521 of deferred revenue (See Note 10).

Due to the unavailability of Q1-2025 financials from Sawgrass Parent, our equity method investee, the Company has applied a one-quarter lag (in accordance with ASC 323-10-35-6) in reporting and recording the value of its 5% minority investment. The Company has determined that its 5% interest shall be recorded using the Equity Method in accordance with the terms of the Amended and Restated Limited Liability Company Agreement of Sawgrass APR Holding LLC (the “Agreement”) whereby Net Profit and Net Loss for any Fiscal Year shall be allocated among the members in such a manner that, as of the end of such fiscal year, the Capital Account Balance of each Member, as increased by the Member’s share of “minimum gain” and “partner minimum gain” (as such terms are used in Treasury Regulations Section 1.704-2), shall, to the extent possible, be equal to the amount which would have been distributed to such Member pursuant to a Hypothetical Liquidation, as defined in the Agreement, as of the end of the last day of such fiscal year. This approach is consistent with the equity



method of accounting as outlined in ASC 323-10-35-6, which will be consistent for each quarter. Consequently, Duos will incorporate the financial results of the Sawgrass Parent into its Q2-2025 10-Q filing which will be applied using a management estimate, ensuring that the equity method is consistently applied.

The Company assesses its equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. No impairment losses were recognized for the three months ended March 31, 2025.

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**NOTE 7 – DEBT**

**Notes Payable - Financing Agreements**

The Company's notes payable relating to financing agreements classified as current liabilities consist of the following as of March 31, 2025 and December 31, 2024:

Notes Payable	March 31, 2025		December 31, 2024	
	Principal	Interest	Principal	Interest
Third Party - Insurance Note 1	\$ —	—%	\$ 13,002	8.00%
Third Party - Insurance Note 2	—	—	4,070	—
Third Party - Insurance Note 3	129,914	—	—	—
Total	<u>\$ 129,914</u>	<u>—</u>	<u>\$ 17,072</u>	<u>—</u>

The Company entered into an agreement on April 15, 2024 with its insurance provider by issuing a note payable (Insurance Note 1) for the purchase of an insurance policy in the amount of \$154,338, secured by that policy with an annual interest rate of 8.25% and payable in 10 monthly installments of principal and interest totaling \$16,023. At March 31, 2025 and December 31, 2024, the balance of Insurance Note 1 was zero and \$13,002, respectively.

The Company renewed its agreement on February 3, 2024 with its insurance provider by issuing a note payable (Insurance Note 2) for the purchase of an insurance policy in the amount of \$24,480, and payable in 12 monthly installments of \$2,040. At March 31, 2025 and December 31, 2024, the balance of Insurance Note 2 was zero and \$4,070, respectively.

The Company entered into an agreement on February 3, 2024 with its insurance provider by issuing a note payable (Insurance Note 3) for the purchase of an insurance policy in the amount of \$245,798 with a down payment paid in the amount of \$84,473 in the first quarter of 2024 and ten monthly installments of \$20,169. The Company renewed its agreement on February 3, 2025 with its insurance provider by issuing a note payable (Insurance Note 3) for the purchase of an insurance policy in the amount of \$249,448 with a down payment paid in the amount of \$119,535 in the first quarter of 2025 and seven monthly installments of \$18,559. At March 31, 2025 and December 31, 2024, the balance of Insurance Note 3 was \$129,914 and \$0, respectively.

**Notes Payable, Related Parties**

On July 22, 2024, the Company and Duos Edge entered into secured promissory notes (the “Notes”) with two institutional investors in the Company, 21 April Fund LP and 21 April Fund Ltd. These investors own more than 10% of the outstanding shares and are therefore considered related parties. The principal amounts of the Notes are \$1,520,000 for the Note issued to 21 April Fund Ltd. and \$680,000 for the Note issued to 21 April Fund LP. The Notes bear interest at an annual rate of 10% and the principal and any accrued interest on the Notes are due on December 30, 2025. The Company has guaranteed all of Duos Edge's obligations pursuant to the Notes.

As security for the Notes, Duos Edge AI granted a first priority security interest in the equipment installed, as well as all revenues from such equipment and the Company pledged all proceeds from the sale of shares of Common Stock under its ATM facility. All of the pledged revenues from the equipment and the ATM facility were deposited in a blocked account and used solely to repay the Notes until they are repaid in full. In November 2024, the Company obtained the lenders' consent waiving the requirement to deposit ATM proceeds in a separate blocked account and to utilize the ATM proceeds for general corporate purposes, provided that any such amounts must be deposited in the blocked account on or prior to December 1, 2025. The Notes may be prepaid without any prepayment penalties, provided that any prepayments shall be made proportionately to each Note.

This transaction is accounted for in accordance with ASC 470, which provides guidance on the accounting for debt and debt modifications. The Company is in compliance with all covenants and conditions associated with the Notes as of March 31, 2025.

As of March 31, 2025, the carrying amount of the Notes is classified as a current liability on the Company's consolidated balance sheet. The Company accrued interest of \$148,246 as of March 31, 2025 with regard to the Notes which is included in accrued expenses in the accompanying consolidated balance sheet.

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In connection with the Notes, the Company issued warrants to purchase 92,727 shares of Common Stock to 21 April Fund LP and 207,273 shares of Common Stock to 21 April Fund Ltd. The warrants had an exercise price of \$3.00 and were exercisable at any time on or prior to the close of business on the five -year anniversary of the original issuance date of July 22, 2024. The warrants contained a fundamental transaction provision whereby the Company might have to make a cash payment to the warrant holder on a fundamental transaction trigger date. Accordingly, the warrants met the criteria to be accounted for as a derivative liability instrument.

The above warrants and the previously held 44,644 warrants were exercised by 21 April Fund LP and 21 April Fund Ltd. on September 19, 2024 and the Company issued an aggregate of 344,644 shares of Common Stock. In connection with such exercise, the parties agreed to reduce the exercise price of the warrants to \$2.61 per share and to remove any “blocker” or similar provisions in the warrants.

The warrant liability value was measured using a Monte Carlo simulation valuation method. The initial warrant liability valuation on the loan date was \$625,606 which was recorded as a debt discount and initial warrant liability. The warrant liability on September 19, 2024 was \$379,626 with a change in fair value recorded in other income/expense from the initial recording date through September 30, 2024 of \$245,980. The debt discount is being amortized over the term of the Notes.

On September 19, 2024, the warrant exercise date, the Company eliminated the warrant liability and recognized a gain on the extinguishment of the warrants in the amount \$379,626.

The Company made early payments in the amount of \$1,000,000 in the three months ended March 31, 2025.

The promissory Notes Payable at March 31, 2025 and December 31, 2024 were as follows:

	<b>March 31, 2025</b>	<b>December 31, 2024</b>
Notes Payable	\$ 1,200,000	\$ 2,200,000
Unamortized Discount	(172,293)	(441,604)
Notes Payable, net	<u>\$ 1,027,707</u>	<u>\$ 1,758,396</u>

Amortization of the discount from the Note for the three months ended March 31, 2025 was \$269,311 which is included in interest expense.

The Company used the following assumptions in determining the fair value of the warrant liabilities:

<b>Date of Grant (Exercise)</b>	<b>Upon Grant</b>		<b>Upon Exercise</b>	
	<b>21 April Fund LP</b>	<b>21 April Fund Ltd</b>	<b>21 April Fund LP</b>	<b>21 April Fund Ltd</b>
	<b>July 22, 2024</b>	<b>July 22, 2024</b>	<b>September 19, 2024</b>	<b>September 19, 2024</b>
Note Value	\$ —	\$ —	\$ —	\$ —
Issue (Exercise) Stock Price	\$ 2.77	\$ 2.77	\$ 2.49	\$ 2.49
Strike	\$ 3.00	\$ 3.00	\$ 2.61	\$ 2.61
Share Equivalents	92,727	207,273	92,727	207,273
Strike Price discount	0%	0%	0%	0%
Expected Remaining Term (Years)	5.00	5.00	4.84	4.84
Historical Volatility	52%	52%	58%	58%
Expected Volatility	100%	100%	58%	58%
Dividend Yield	0%	0%	0%	0%
Annual Rate of Quarterly Dividends	\$ 0.000	\$ 0.000	\$ 0.000	\$ 0.000
Discount Rate - Bond Equivalent Yield	4.170%	4.170%	3.480%	3.480%

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**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

**Operating Lease Obligations**

On July 26, 2021, the Company entered a new operating lease agreement for office and warehouse combination space of 40,000 square feet, with the lease commencing on November 1, 2021, and ending April 30, 2032. This new space combines the Company's two separate work locations into one facility, which allows for greater collaboration and also accommodates a larger anticipated workforce and manufacturing facility. On November 24, 2021, the lease was amended to commence on December 1, 2021, and end on May 31, 2032. The Company recognized a ROU asset and operating lease liability in the amount of \$4,980,104 at lease commencement. Rent for the first eleven months of the term was calculated based on 30,000 rentable square feet. The rent is subject to an annual escalation of 2.5%, beginning November 1, 2023. The Company made a security deposit payment in the amount of \$600,000 on July 26, 2021. Per the contract, in the 18<sup>th</sup> month and every 12th month thereafter, the security deposit is reduced by \$50,000 and now stands at \$500,000. The right of use asset balance at March 31, 2025, net of accumulated amortization, was \$3,937,256.

As of March 31, 2025, the office and warehouse lease is the Company's only lease with a term greater than twelve months. The office and warehouse lease has a remaining term of approximately 7.25 years and includes an option to extend for two renewal terms of five years each. The renewal options are not reasonably certain to be exercised, and therefore, they are not included when determining the lease term used to establish the right-of-use asset and lease liability. The Company also has several short-term leases, primarily related to equipment. The Company made an accounting policy election to not recognize short-term leases with terms of twelve months or less on the consolidated balance sheet and instead recognize the lease payments in expense as incurred. The Company has also elected to account for real estate leases that contain both lease and non-lease components (such as common area maintenance) as a single lease component.

The following table shows supplemental information related to leases:

	Three Months Ended March 31,	
	2025	2024
<b>Lease cost:</b>		
Operating lease cost	\$ 195,409	\$ 195,410
Short-term lease cost	\$ 5,303	\$ 4,296
<b>Other information:</b>		
Operating cash outflow used for operating leases	\$ 199,224	\$ 194,367
Weighted average discount rate	9.0%	9.0%
Weighted average remaining lease term	7.25 years	8.3 years

As of March 31, 2025, future minimum lease payments due under our operating leases are as follows:

	Amount
<b>Calendar year:</b>	
2025	\$ 599,332
2026	818,518
2027	838,984
2028	859,856
Thereafter	3,183,571
Total undiscounted future minimum lease payments	6,300,261
Less: Impact of discounting	(1,729,619)
Total present value of operating lease obligations	4,570,642
Current portion	(803,536)
Operating lease obligations, less current portion	<u>\$ 3,767,106</u>

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**Master Lease Agreement**

On November 1, 2024, the Company entered into a Master Lease Agreement (“MLA”) for a total lease obligation of \$2,662,282. The lease is structured with a repayment term of 66 months, with fixed monthly payments commencing on December 10, 2024. At the end of the lease term, the Company has the option to purchase the leased asset for \$1.

In accordance with ASC 842, the lease is classified as a finance lease, as the \$1 buyout option indicates a transfer of ownership. As a result, the Company has recorded a right-of-use asset and a corresponding lease liability on its balance sheet. Interest expense and amortization of the right-of-use asset will be recognized over the lease term. Management believes this lease structure supports the Company’s operational and financial objectives.

The following table shows supplemental information related to the MLA:

	Three Months Ended March 31,	
	2025	2024
<b>Lease cost:</b>		
Master Lease Agreement cost	\$ 121,013	\$ —
Short-term lease liability	\$ 487,695	\$ —
<b>Other information:</b>		
Operating cash outflow used for operating leases	\$ 11,700	\$ —
Weighted average discount rate	8.63%	—
Weighted average remaining lease term	5.17 years	—

At March 31, 2025, future minimum lease payments due under the MLA are as follows:

	Amount
<b>Calendar year:</b>	
2025	\$ 355,751
2026	527,777
2027	527,777
2028	527,777
Thereafter	703,702
Total undiscounted future minimum lease payments	2,642,784
Less: Impact of discounting	(517,049)
Total present value of MLA obligation	2,125,735
Current portion	(487,695)
MLA, less current portion	<u><u>\$ 1,638,040</u></u>

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**NOTE 9 – STOCKHOLDERS’ EQUITY**

**Series B Convertible Preferred Stock**

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

Each share of Series B Convertible Preferred Stock was convertible at any time at the holder’s option into a number of shares of common stock equal to \$1,000 divided by the conversion price of \$7.00 per share. Notwithstanding the foregoing, we could not effect any conversion of Series B Convertible Preferred Stock, with certain exceptions, to the extent that, after giving effect to an attempted conversion, the holder of shares of Series B Convertible Preferred Stock (together with such holder’s affiliates, and any persons acting as a group together with such holder or any of such holder’s affiliates) would beneficially own a number of shares of our common stock in excess of 4.99% (or, at the election of the purchaser, 9.99%) of the shares of our common stock then outstanding after giving effect to such conversion. The Series B Convertible Preferred Certificate of Designation does not prohibit the Company from waiving this limitation. Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders would be entitled to participate on an as-converted-to-common stock basis (without giving effect to the Beneficial Ownership Limitation) with holders of the common stock in any distribution of assets of the Company to the holders of the common stock. As of March 31, 2025 and December 31, 2024, respectively, there are zero and zero shares of Series B Convertible Preferred Stock issued and outstanding.

**Series C Convertible Preferred Stock**

The Company’s Board of Directors designated 5,000 shares as the Series C Convertible Preferred Stock (the “Series C Convertible Preferred Stock”). Each share of the Series C Convertible Preferred Stock had 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 had 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 was 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 Convertible Preferred Stock elected the 19.99% Beneficial Ownership Limitation. At March 31, 2025 and December 31, 2024 there were zero and zero shares of Series C Convertible Preferred Stock, issued and outstanding, respectively.

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**(Unaudited)**

**Series D Convertible Preferred Stock**

On September 28, 2022, the Company amended its articles of incorporation to designate 4,000 shares as the Series D Convertible Preferred Stock (the “Series D Convertible Preferred Stock”). Each share of the Series D Convertible Preferred Stock has a stated value of \$1,000. The holders of the Series D 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 D Convertible Preferred Stock has 333 votes (subject to standard anti-dilution adjustment); provided that in no event may a holder of Series D 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 D 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 \$3.00 (subject to adjustment). The Company shall not effect any conversion of the Series D Convertible Preferred Stock, and a holder shall not have the right to convert any portion of the Series D 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 but one of the holders of the Series D Convertible Preferred Stock elected the 19.99% Beneficial Ownership Limitation. The Company shall reserve and keep available out of its authorized and unissued Common Stock, solely for the issuance upon the conversion of the Series D Convertible Preferred Stock, such a number of shares of Common Stock as shall from time to time be issuable upon the conversion of all of the shares of the Series D Convertible Preferred Stock then outstanding. Additionally, the Series D Convertible Preferred Stock does not have the right to dividends and in the event of an involuntary liquidation, the Series D Convertible Preferred Stock shall be treated as a pro rata equivalent of common stock outstanding at the date of the liquidation event and have no liquidation preference.

On September 30, 2022, 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 999 shares of the newly authorized Series D Convertible Preferred Stock, and the Company received proceeds of \$999,000. The Purchase Agreement contains customary representations, warranties, agreements and indemnification rights and obligations of the parties. On October 29, 2022, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with a certain existing investor in the Company (the “Purchaser”). Pursuant to the Purchase Agreement, the Purchaser purchased 300 shares of the newly authorized Series D Convertible Preferred Stock, and the Company received proceeds of \$300,000. The Purchase Agreement contains customary representations, warranties, agreements and indemnification rights and obligations of the parties.

At the Annual Meeting on May 16, 2023, the stockholders approved the convertibility of the Series D Convertible Preferred Stock into common stock.

On March 22, 2024, March 28, 2024, and April 3, 2024, the Company entered into Securities Purchase Agreements (the “Purchase Agreements”) with certain existing and other accredited investors (the “2024 Purchasers”). Pursuant to the Purchase Agreements, the 2024 Purchasers purchased an aggregate of 870 shares of Series D Convertible Preferred Stock, at a price of \$1,000 per share, and the Company received proceeds of \$870,000.

In February of 2025, 300 outstanding shares of Series D Convertible Preferred Stock were converted into 100,000 shares of common stock. As of March 31, 2025 and December 31, 2024, respectively, there were 999 and 1,299 shares of Series D Convertible Preferred Stock issued and outstanding.

In connection with such Purchase Agreements, the Company entered into Registration Rights Agreements and filed registration statements with the SEC covering the resale by the Purchasers of the shares of common stock into which the shares of Series D Convertible Preferred Stock are convertible. The Registration Rights Agreements contain customary representations, warranties, agreements and indemnification rights and obligations of the parties.

The Registration Rights Agreements contain provisions for liquidated damages equal to 1% multiplied by the aggregate subscription amount paid, paid each month, in the event certain deadlines are missed.

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**Series E Convertible Preferred Stock**

The Company's Board of Directors has designated 30,000 shares as the Series E Convertible Preferred Stock (the "Series E Convertible Preferred Stock"). Each share of the Series E Convertible Preferred Stock has a stated value of \$1,000. The holders of the Series E 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 as one class on all matters submitted to a vote of shareholders of the Company. Each share of Series E Convertible Preferred Stock has 333 votes (subject to adjustment); provided that in no event may a holder of Series E Convertible Preferred Stock be entitled to vote a number of shares in excess of such holder's Beneficial Ownership Limitation. Each share of Series E 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 \$3.00 (subject to adjustment) (see adjustment below to \$2.61). The Company shall not effect any conversion of the Series E Convertible Preferred Stock, and the holder shall not have the right to convert any portion of the Series E 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 but one of the holders of the Series E Preferred Stock elected the 19.99% Beneficial Ownership Limitation.

The Company on March 27, 2023 entered into a Securities Purchase Agreement (the "Purchase Agreement") with an existing investor in the Company (the "Purchaser"). Pursuant to the Purchase Agreement, the Purchaser purchased 4,000 shares of a newly authorized Series E Convertible Preferred Stock at a price of \$1,000 per share, and the Company received proceeds of \$4,000,000. The Purchase Agreement contains customary representations, warranties, agreements and indemnification rights and obligations of the parties.

The existing investor's Purchase Agreement also provided that the Company would not, with certain exceptions, sell or issue common stock or Common Stock Equivalents (as defined in the Purchase Agreement) on or prior to December 31, 2023 that entitled any person to acquire shares of common stock at an effective price per share less than the then conversion price of the Series E Convertible Preferred Stock without the consent of the Purchaser.

On November 9, 2023, the Company entered into a Securities Purchase Agreement (the "November Purchase Agreement") with an existing investor in the Company (the "Purchaser"). Pursuant to the Purchase Agreement, the Purchaser purchased 2,500 shares of Series E Convertible Preferred Stock, at a price of \$1,000 per share, and the Company received proceeds of \$2,500,000.

The November Purchase Agreement also provided that the Company would not, with certain exceptions, sell or issue common stock or Common Stock Equivalents (as defined in the November Purchase Agreement) on or prior to June 30, 2024 that entitled any person to acquire shares of common stock at an effective price per share less than the then conversion price of the Series E Convertible Preferred Stock, which was \$3.00 per share, without the consent of the Purchasers. If the Company sold shares less than the then conversion price, with the consent of purchasers, then the Series E conversion price would be amended to that lower share price. This provision was not triggered as of June 30, 2024.

The Purchasers under the November Purchase Agreement also were the holders of the Company's Series F Convertible Preferred Stock issued on August 1, 2023. The purchase agreement relating to the shares of Series F Convertible Preferred Stock required the consent of the holders in the event the Company were to issue common stock or rights to acquire common stock prior to December 31, 2023 at an effective price per share less than the then conversion price of the Series F Convertible Preferred Stock, which was \$6.20 per share. As a result, on November 10, 2023 the Company and the holders of the Series F Convertible Preferred Stock entered into Exchange Agreements pursuant to which the holders of Series F Convertible Preferred Stock exchanged their 5,000 shares of Series F Convertible Preferred Stock for an equal number of shares of Series E Convertible Preferred Stock. As a result of the November Purchase Agreement and the Exchange Agreements, the Company issued a total of 7,500 shares of Series E Convertible Preferred Stock and the 5,000 shares of Series F Convertible Preferred Stock were cancelled.

On March 22, 2024 and March 28, 2024, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") with certain existing and other accredited investors (the "2024 Purchasers"). Pursuant to the Purchase Agreements, the 2024 Purchasers purchased an aggregate of 2,125 shares of Series E Convertible Preferred Stock, at a price in each case of \$1,000 per share, and the Company received proceeds of \$2,125,002. Those purchase agreements had similar price protections as the November Purchase Agreement but extended the price protection date to December 31, 2024, for all Series E holders.

On September 19, 2024, the conversion price was lowered to \$2.61 from \$3.00 per share based on the down-round protection provision triggered by the warrants induced exercise price of \$2.61 per share. This will lead to the issuance of an additional 678,640 shares of common stock upon the conversion of the preferred shares.



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In October 2024, 125 outstanding shares of the Series E Preferred Stock were converted into 47,892 shares of common stock.

In connection with such Purchase Agreements, the Company also entered into Registration Rights Agreements with the Purchasers. Pursuant to the Registration Rights Agreements, the Company filed with the SEC registration statements covering the resale by the Purchasers of the shares of common stock into which the shares of Series E Convertible Preferred Stock are convertible.

The Registration Rights Agreements contain customary representations, warranties, agreements and indemnification rights and obligations of the parties. The Registration Rights Agreements contain provisions for liquidated damages equal to 1% multiplied by the aggregate subscription amount paid, paid each month, in the event certain deadlines are missed.

As of March 31, 2025 and December 31, 2024, respectively, there were 13,500 and 13,500 shares of Series E Convertible Preferred Stock issued and outstanding.

#### **Series F Convertible Preferred Stock**

The Company's Board of Directors designated 5,000 shares as the Series F Convertible Preferred Stock. Each share of Series F Convertible Preferred Stock was 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 described below) determined by dividing the stated value of such share (\$1,000) by the conversion price, which is \$6.20 (subject to adjustment) which equates to 161 common shares for each converted Series F Convertible Preferred Share. The Company, however, shall not effect any conversion of the Series F Convertible Preferred Stock, and the holder shall not have the right to convert any portion of the Series F 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 purchasers of the Series F Convertible Preferred Stock elected that their ownership limitation would be 19.99%.

The holders of the Series F 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 F Convertible Preferred Stock had 161 votes (subject to adjustment); provided that in no event may a holder of Series F Convertible Preferred Stock be entitled to vote a number of shares in excess of such holder's ownership limitation.

On August 2, 2023, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with an existing, accredited investor in the Company (the "Purchaser"). Pursuant to the Purchase Agreement, the Purchaser purchased 5,000 shares of a newly authorized Series F Convertible Preferred Stock (the "Series F Convertible Preferred Stock"), and the Company received proceeds of \$5,000,000. The Purchase Agreement contains customary representations, warranties, agreements and indemnification rights and obligations of the parties.

The Company also agreed that it would not, with certain exceptions, sell or issue common stock or Common Stock Equivalents (as defined in the Purchase Agreement relating to the Series F Convertible Preferred Stock) on or prior to December 31, 2023 that entitled any person to acquire shares of common stock at an effective price per share less than the then conversion price of the Series F Convertible Preferred Stock without the consent of the holders. As a result of that agreement, upon the issuance of 2,500 shares of Series E Convertible Preferred Stock (which had a conversion price of \$3.00 per share) on November 10, 2023, the holders exchanged their 5,000 shares of Series F Preferred Stock for 5,000 shares of Series E Preferred Stock. All of the shares of Series F Convertible Preferred Stock thereupon were cancelled with 0 shares now outstanding.

As of March 31, 2025 and December 31, 2024, respectively, there were zero and zero shares of Series F Convertible Preferred Stock issued and outstanding.

#### **Common stock issued**

##### **Three Months Ended March 31, 2025**

Effective January 1, 2025, the Company's executive leadership team was granted a total of 1,841,898 shares of restricted stock, subject to a three-year cliff vesting schedule, with an aggregate grant-date fair value of \$11,014,544 based on a \$5.98 price per share.

On February 5, 2025, a holder of our Series D Convertible Preferred Stock converted 300 shares of Series D Convertible Preferred Stock into 100,000 shares of Common Stock.

Effective March 26, 2025, the Company issued restricted stock awards to an employee for a total of 100,000 shares of restricted stock with 3-year cliff vesting with an aggregate grant-date fair value of \$604,000 based on a \$6.04 price per share.

On April 1, 2025, certain employees exercised stock options to acquire a total of 27,712 shares of the Company's common stock, generating total gross proceeds of \$107,925, incurring stock issuance cost of \$375 and yielding net proceeds of \$107,550. The exercises were made pursuant to the Company's 2016 and 2021 Equity Incentive Plans and were conducted in accordance with the applicable terms of the plans and the individual award agreements.

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During the three months ended March 31, 2025, the Company issued an aggregate of 633,683 shares of common stock at a weighted average price of \$6.24 per share through its At-The-Market (ATM) offering program, generating total gross proceeds of \$3,954,940 incurring stock issuance costs of \$137,851 and yielding net proceeds of \$3,817,089.

During the three months ended March 31, 2025, the Company issued 9,360 shares of common stock for payment of board fees to four directors in the amount of \$50,000 for services to the board which was expensed during the three months ended March 31, 2025. The volume-weighted average price (VWAP) per share used to value the services is \$5.34.

**Three Months Ended March 31, 2024**

During the three months ended March 31, 2024, the Company issued 8,655 shares of common stock for payment of board fees to four directors in the amount of \$37,500 for services to the board which was expensed during the three months ended March 31, 2024. The volume-weighted average price (VWAP) per share used to value the services is \$4.33.

**Employee Stock Purchase Plan**

In the fourth quarter of 2022, the board of directors adopted an Employee Stock Purchase Plan ("ESPP") which was effective as of January 1, 2023 with a term of 10 years. The ESPP allows eligible employees to purchase shares of the Company's common stock at a discounted price, through payroll deductions from a minimum of 1% and up to 25% of their eligible compensation up to a maximum of \$25,000 or the IRS allowable limit per calendar year. The Company's Chief Financial Officer administers the ESPP in conjunction with approvals from the Company's Compensation Committee, including with respect to the frequency and duration of offering periods, the maximum number of shares that an eligible employee may purchase during an offering period, and, subject to certain limitations set forth in the ESPP, the per-share purchase price. Currently, the maximum number of shares that can be purchased by an eligible employee under the ESPP is 10,000 shares per offering period and there are two six-month offering periods that begin in the first and third quarters of each fiscal year. The purchase price for one share of Common Stock under the ESPP is currently equal to 85% of the fair market value of one share of Common Stock on the first trading day of the offering period or the purchase date, whichever is lower (look-back feature). Although not required by the ESPP, all payroll deductions received or held by the Company under the ESPP are segregated and deemed as "restricted cash" until the completion of the offering period and redemption of the applicable shares and those withheld amounts are recorded as liabilities. The ESPP employee contribution for the three months ended March 31, 2025 is less than 2 % of total cash and is not deemed material, therefore it is not presented separately on the Balance Sheet as "restricted cash". The maximum aggregate number of shares of the Common Stock that may be issued under the ESPP is 1,000,000 shares.

Under ASC 718-50 "Employee Share Purchase Plans" the plan is considered a compensatory plan and the compensation for each six-month offering period is computed based upon the grant date fair value of the estimated shares to be purchased based on the estimated payroll deduction withholdings. The grant date fair value was computed as the sum of (a) 15% purchase discount off of the grant date quoted trading price of the Company's common stock and (b) the fair value of the look-back feature of the Company's common stock on the grant date which consists of a call option on 85% of a share of common stock and a put option on 15% of a share of common stock.

As of March 31, 2025, the Company has an accrued liability of \$51,781 included in accrued expenses of employee contributions for the ESPP which may convert to shares of common stock upon the close of the offering period open from January 1, 2025 to June 30, 2025. The liability is offset by restricted cash held by the Company in the same amount for employee contributions which the Company expects to convert to common stock upon closure of the offering period at June 30, 2025. Additionally, the Company recorded a stock-based expense associated with the ESPP for the three months ended March 31, 2025 of \$21,644.

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The Company computed the fair value of the look-back feature call and put options for January 1, 2025 to March 31, 2025 using a Black Scholes option pricing model using the following assumptions:

	At March 31, 2025
Grant date share price	\$5.64
Grant date exercise price	\$4.79
Expected term	0.25 years
Expected volatility	74.1%
Risk-free rate	4.32%
Expected dividend rate	0%

During the offer period, the Company records stock-based compensation pro rata as an expense and a credit to additional paid-in capital. The following table discloses relevant information for the ESPP at March 31, 2025 and for three months then ended.

	At March 31, 2025
Cash payment received from employee withholdings	\$ 51,781
Cash from employee withholdings used to purchase shares under ESPP	—
Cash and ESPP employee withholding liability	\$ 51,781

  

	For the Three Months ended March 31, 2025
Cash from employee withholdings used to purchase ESPP shares	\$ —
Stock based compensation expense	21,644
Total increase to equity for three months ended March 31, 2025	\$ 21,644

**Stock-Based Compensation: Options, Warrants and Restricted Stock**

Stock-based compensation expense recognized under ASC 718-10 for the three months ended March 31, 2025 and 2024, was \$22,030 and \$141,204, respectively, for stock options granted to employees. This expense is included in general and administration expenses in the unaudited consolidated statements of operations. Stock-based compensation expense recognized during the periods is based on the grant-date fair value of the portion of share-based payment awards that are ultimately expected to vest during the period. At March 31, 2025, the total compensation cost for stock options not yet recognized was \$42,004. This cost will be recognized over the remaining vesting term of the options ranging from one year to two years.

Stock-based compensation expense recognized under ASC 718-10 for the three months ended March 31, 2025 and 2024, was \$951,973 and \$0, respectively, for shares of restricted stock granted to employees. During the three months ended March 31, 2025, the Company granted a total of 1,961,898 shares of restricted stock with an aggregate grant-date fair value of \$11,738,150, computed as 1,861,898 shares at \$5.98 per share and 100,000 shares at \$6.04 per share. This expense is included in selling, general and administration expenses in the unaudited consolidated statements of operations. Stock-based compensation expense recognized during the periods is based on the grant-date fair value of the restricted stock units that are ultimately expected to vest. At March 31, 2025, the total compensation cost for restricted stock not yet recognized was \$10,786,171. This cost will be recognized over the remaining vesting term of the restricted stock ranging from nine months to 3 years.

On May 12, 2021, the Board adopted the 2021 Equity Incentive Plan (the “2021 Plan”) providing for the issuance of up to 1,000,000 shares of our common stock. The purpose of the 2021 Plan is to assist the Company in attracting and retaining key employees, directors and consultants and to provide incentives to such individuals to align their interests with those of our shareholders. During the third quarter of 2021, the shareholders approved the issuance of up to one million shares or share equivalents pursuant to the 2021 Plan. The Company filed an S-8 registration statement in concert with the 2021 Plan which was deemed effective on August 5, 2021. The plan covers a period of ten years. On August 6, 2024, the Board adopted an amendment to the 2021 Plan increasing the number of shares or share equivalents issuable pursuant to the 2021 Plan to 2,500,000 and beginning as of February 1, 2025, and for each February 1<sup>st</sup> thereafter, to the greater of 2,500,000 or a number of shares based on a formula tied to the Company’s fully diluted common equivalent share capitalization, excluding warrants and options. The amendment was approved by shareholders on September 30, 2024.

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As of March 31, 2025, and December 31, 2024, options to purchase a total of 475,368 (net of forfeitures) shares of common stock and 606,452 shares of common stock were outstanding, respectively. At March 31, 2025, 324,246 options were exercisable. Of the total options issued, zero and 131,084 options were outstanding under the 2016 Equity Incentive Plan, 385,368 and 385,368 were outstanding under the 2021 Plan and a further 90,000 and 90,000 non-plan options to purchase common stock were outstanding as of March 31, 2025 and December 31, 2024, respectively. The non-plan options were granted to four executives as hiring incentives, including the Company's CEO in the fourth quarter of 2020.

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2023	1,387,775	\$ 5.23	3.0	\$ —
Granted	—	\$ —	—	\$ —
Forfeited	(781,323)	\$ 5.17	—	\$ —
Outstanding at December 31, 2024	606,452	\$ 5.29	2.0	\$ 514,394
Exercisable at December 31, 2024	442,445	\$ 5.50	1.6	\$ 296,145
Outstanding at December 31, 2024	606,452	\$ 5.29	2.0	\$ 514,394
Granted	—	\$ —	—	\$ —
Exercised/Forfeited/Expired	131,084	\$ 5.39	—	\$ —
Outstanding at March 31, 2025	475,368	\$ 5.27	2.3	\$ 351,353
Exercisable at March 31, 2025	324,246	\$ 5.76	1.9	\$ 100,465

**Warrants**

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2023	44,644	\$ 7.70	0.7	\$ —
Warrants expired, forfeited, cancelled or exercised	(344,644)	\$ —	—	\$ —
Warrants issued	300,000	\$ 3.00	—	\$ —
Outstanding at December 31, 2024	—	\$ —	—	\$ —
Exercisable at December 31, 2024	—	\$ —	—	\$ —
Outstanding at December 31, 2024	—	\$ —	—	\$ —
Warrants issued	—	\$ —	—	\$ —
Warrants expired, forfeited, cancelled or exercised	—	\$ —	—	\$ —
Outstanding at March 31, 2025	—	\$ —	—	\$ —
Exercisable at March 31, 2025	—	\$ —	—	\$ —

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**NOTE 10 – REVENUE AND CONTRACT ACCOUNTING**

**Revenue Recognition and Contract Accounting**

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

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

**Contract Assets**

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

At March 31, 2025 and December 31, 2024, contract assets on uncompleted contracts consisted of the following:

	March 31, 2025	December 31, 2024
Cumulative revenues recognized	\$ 9,981,445	\$ 9,916,761
Less: Billings or cash received	(9,280,987)	(9,280,987)
Contract assets	<u>\$ 700,458</u>	<u>\$ 635,774</u>

**Contract Liabilities**

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

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

At March 31, 2025 and December 31, 2024, contract liabilities on uncompleted contracts and contract liabilities on services and consulting consisted of the following:

	March 31, 2025	December 31, 2024
Billings and/or cash receipts on uncompleted contracts	\$ 1,264,658	\$ 1,264,658
Less: Cumulative revenues recognized	(861,024)	(861,024)
Contract liabilities, technology systems	403,634	403,634
Contract liabilities, services and consulting	9,964,218	11,401,384
Total contract liabilities, current	10,367,852	11,805,018
Total contract liabilities, non-current	<u>\$ 9,563,888</u>	<u>\$ 11,016,134</u>

**Contract Liabilities Current**

	March 31, 2025	December 31, 2024
Total contract liabilities, current	\$ 3,001,352	\$ 3,188,518
Total contract liabilities, current – related parties	7,366,500	8,616,500
Total contract liabilities, current	<u>\$ 10,367,852</u>	<u>\$ 11,805,018</u>

**Contract Liabilities Non-Current**

	March 31, 2025	December 31, 2024
Total contract liabilities, non-current	\$ 6,851,513	\$ 7,399,634
Total contract liabilities, non-current – related parties	2,712,375	3,616,500
Total contract liabilities, non-current	<u>\$ 9,563,888</u>	<u>\$ 11,016,134</u>

Current Contract liabilities at December 31, 2024 were \$11,805,018; of which zero 0 for technology systems and \$3,022,901 in services and consulting have been recognized as of March 31, 2025.

The Company expects to recognize all current contract liabilities within 12 months from the respective consolidated balance sheet date. In May 2024, the Company recorded an initial deferred revenue as a contract liability in the amount of \$11,161,428 of which \$199,008 related to a pilot program was immediately recognized as revenue (See Note 4) and another \$1,370,303 was recognized in 2024. During the three months ended March 31, 2025, the Company recognized revenue of \$548,122 from this deferred revenue. This contract liability resulted from a five-year contract with a customer where the Company received non-monetary consideration recorded as intangible assets (See Note 4). This transaction was accounted for under ASC 606-10-32-21 through ASC-606-10-32-24, Non-Cash Consideration. The performance obligations, which include various support and maintenance services, will be recognized as revenue pro-rata over time during the five-year contract term. The current contract liabilities of \$2,192,484 for just this contract as of March 31, 2025 relate to the portion of the contract value the Company expects to recognize pro-rata within the next twelve months. The non-current contract liabilities of \$6,851,513 as of March 31, 2025 represent the portion of the contract value that is expected to be recognized pro-rata beyond the next twelve months. If the Digital Image License Agreement is terminated prior to the completion of the five-year term, then the customer will pay for the maintenance and support services annually in cash.

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In December 2024, the Company entered into a series of contracts with Fortress which are considered related party transactions under which the Company will deploy and operate a fleet of mobile gas turbines and balance-of-plant inventory, providing management, sales and operations functions to Sawgrass in connection with the assets. In exchange for services performed under the Asset Management Agreement (“AMA”), the Company will invoice monthly under this cost plus fee contract. The Company received an advance cash payments and common units in Sawgrass (see Note 6). Sawgrass paid the Company \$5.0 million in cash upon execution of the contract, which will be applied ratably on a monthly basis against amounts incurred under the AMA for a period of 12 months in 2025. In the event that the AMA is terminated within the first 12 months, any balance remaining of the advanced funds would be credited in full to Duos.

As of March 31, 2025 the balance pertaining to this contract is \$3,750,000 for services performed and relates to the portion of the contract value the Company expects to recognize pro-rata within the next nine months. The Company invoiced \$3,010,325 in revenue under the AMA for the three months ended March 31, 2025 of which \$1,250,000 was amortization of the deferred revenue.

The Company also concluded that the arrangement with Sawgrass is within the scope of ASC 606, Revenue from contracts with customers, and the common units issued to the Company by Sawgrass Parent represented non-cash consideration. The initial carrying value as of December 31, 2024 of \$7.2 million was measured equal to the fair value of the common units received for future services to be performed under the AMA. The Company recorded \$7.2 million of deferred revenue for services to be performed under the AMA which will be recognized over a period of two years (see Note 6). For the three months ended March 31, 2025, the Company recognized revenue in the amount of \$904,125 associated with the AMA. The Company initially recorded the equity method investment in Sawgrass of \$7.2 million, equal to the fair value of the common units.

The Company will fully recognize \$5.0 million in revenue pertaining to the AMA during 2025.

As of March 31, 2025, the balance in contract liabilities pertaining to the non-monetary (see Note 4) transaction agreement is as follows:

Calendar Year	Amount
2025	\$ 1,644,363
2026	2,192,484
2027	2,192,484
2028	2,192,484
2029	822,181
Total Contract Liabilities	<u>\$ 9,043,996</u>

As of March 31, 2025, the balance in contract liabilities pertaining to the value of the equity method (see Note 6) interest will be recognized as revenue as follows:

Calendar Year	Amounts
2025	\$ 2,712,375
2026	3,616,500
Contract Liability	<u>\$ 6,328,875</u>

#### Disaggregation of Revenue

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

#### Qualitative:

1. We have four distinct revenue sources:
  - a. Technology Systems (Turnkey, engineered projects);
  - b. AI Technology (Associated maintenance and support services);
  - c. Technical Support (Operational support, asset management of power generation systems); and
  - d. Consulting Services (Predetermined algorithms to provide important operating information to the users of our systems).
2. We currently operate in North America including the USA, Mexico and Canada.
3. Our customers include rail transportation, and commercial.
4. Our technology systems and equipment projects fall into two types:
  - a. Transfer of goods and services over time.
  - b. Goods delivered at point in time.
5. Our services & maintenance 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 one to two quarters in length; and
  - b. Maintenance and support contracts ranging from one to five years in length.





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**(Unaudited)**

**Quantitative:**

**For the Three Months Ended March 31, 2025**

<b>Segments</b>	<b>Technologies</b>	<b>Data Center Hosting &amp; Related Services</b>	<b>Asset Management</b>	<b>Total</b>
<b>Primary Geographical Markets</b>				
North America	\$ 1,037,435	\$ —	\$ 3,914,750	\$ 4,952,185
<b>Major Goods and Service Lines</b>				
Turnkey Projects	\$ 64,684	\$ —	\$ —	\$ 64,684
Maintenance and Support	972,751	—	3,914,750	4,877,501
	\$ 1,037,435	\$ —	\$ 3,914,750	\$ 4,952,185
<b>Timing of Revenue Recognition</b>				
Goods transferred over time	\$ 64,684	\$ —	\$ —	\$ 64,684
Services transferred over time	972,751	—	3,914,750	4,877,501
	\$ 1,037,435	\$ —	\$ 3,914,750	\$ 4,952,185

**For the Three Months Ended March 31, 2024**

<b>Segments</b>	<b>Technologies</b>	<b>Data Center Hosting &amp; Related Services</b>	<b>Asset Management</b>	<b>Total</b>
<b>Primary Geographical Markets</b>				
North America	\$ 1,070,680	\$ —	\$ —	\$ 1,070,680
<b>Major Goods and Service Lines</b>				
Turnkey Projects	\$ 269,855	\$ —	\$ —	\$ 269,855
Maintenance and Support	800,825	—	—	800,825
	\$ 1,070,680	\$ —	\$ —	\$ 1,070,680
<b>Timing of Revenue Recognition</b>				
Goods transferred over time	\$ 269,855	\$ —	\$ —	\$ 269,855
Services transferred over time	800,825	—	—	800,825
	\$ 1,070,680	\$ —	\$ —	\$ 1,070,680

**Revision of Disaggregation of Revenue**

For three months ended March 31, 2025, the Company has revised the presentation of disaggregated revenue compared to the presentation included in our Form 10-Q for the quarter ended March 31, 2024. The revision was made to better align with the nature, timing, and uncertainty of revenue and cash flows arising from our contracts with customers. Comparative amounts for the prior period have been reclassified where necessary to conform to the current period presentation. These changes did not impact consolidated revenue previously reported.

**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
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**NOTE 11 – SEGMENT REPORTING**

Beginning on January 1, 2025, the Company operates in three operating and reportable segments which consist of (1) applying machine vision and AI to analyze high-speed objects and generate revenue from system installations, AI integrations, support, and consulting, herein known as the “Technologies” segment, (2) deploying Edge Data Centers for localized data processing in rural and underserved markets, herein known as the “Data Center Hosting & Related Services” segment, and (3) providing Asset Management Services under the AMA with New APR, managing mobile gas turbines and related assets, herein known as the “Asset Management Services” segment. The Company has determined that these reportable segments were strategic business units that offer different products and services. Currently, these reportable segments are being managed separately based on the fundamental differences in their operations.

The Company’s Technologies segment applies machine vision and AI to monitor and analyze high-speed objects such as trains, trucks, automobiles, and aircraft, and generates revenue through its technology systems, AI applications, ongoing technical support, and consulting services.

The Company’s Data Center Hosting & Related Services segment generates revenues through the deployment of Edge Data Centers that enable faster, localized data processing in rural and underserved markets, providing scalable solutions for enterprise and government clients.

The Company’s Asset Management Services segment generates revenues through the AMA with New APR, whereby Duos Energy oversees the deployment and operation of a fleet of mobile gas turbines and balance-of-plant inventory, providing management, sales, and operations support to New APR.

Corporate and unallocated amounts that do not relate to a reportable segment have been allocated to “Corporate & Unallocated.”

The Company’s chief operating decision maker (“CODM”) is its Chief Executive Officer. The decisions concerning the allocation of the Company’s resources are made by the CODM with oversight by the Board of Directors. The CODM evaluates the performance of each segment and makes decisions concerning the allocation of resources based upon segment operating profit (loss), generally defined as income or loss before interest expense and income taxes. The CODM assesses segment performance by using each segment’s operating income (loss) and considers budget-to-actual variances on a periodic basis (at least quarterly) when making decisions about operational planning, including whether to invest resources into the segments or into other parts of the Company. Segment assets are reviewed by the Company’s CODM and are disclosed below. The accounting policies of the Technologies, Data Center Hosting & Related Services, and Asset Management Services segment are the same as those described in Note 1 of the Notes to Consolidated Financial Statements.

**DUOS TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
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Information with respect to these reportable business segments for the three months ended March 31, 2025 and 2024 was as follows:

**Three Months Ended March 31, 2025**

	<u>Technologies</u>	<u>Data Center Hosting &amp; Related Services</u>	<u>Asset Management Services</u>	<u>Corporate and Unallocated</u>	<u>Consolidated</u>
Net revenues	\$ 1,037,435	\$ —	\$ 3,914,750	\$ —	\$ 4,952,185
Cost of revenues	980,458	—	2,658,068	—	3,638,526
Operating Expenses (excluding depreciation and amortization)	1,649,951	315,066	—	—	1,965,017
Depreciation and amortization	164,233	34	—	—	164,267
Stock Compensation	—	—	—	974,003	974,003
Income (loss) from operations	(1,757,206)	(315,100)	1,256,682	(974,003)	(1,789,628)
Interest Expense	(3,265)	(319,312)	—	—	(322,577)
Other Income	19,168	10,678	2,083	613	32,542
Income (loss) before provision for income taxes	(1,741,304)	(623,734)	1,258,765	(973,390)	(2,079,663)
Provision for income taxes	—	—	—	—	—
Net income (loss)	<u>\$ (1,741,304)</u>	<u>\$ (623,734)</u>	<u>\$ 1,258,765</u>	<u>\$ (973,390)</u>	<u>\$ (2,079,663)</u>

**Three Months Ended March 31, 2024**

	<u>Technologies</u>	<u>Data Center Hosting &amp; Related Services</u>	<u>Asset Management Services</u>	<u>Corporate and Unallocated</u>	<u>Consolidated</u>
Net revenues	\$ 1,070,680	\$ —	\$ —	\$ —	\$ 1,070,680
Cost of revenues	976,048	—	—	—	976,048
Operating Expenses (excluding depreciation and amortization)	2,556,266	—	—	—	2,556,266
Depreciation and amortization	158,208	—	—	—	158,208
Stock Compensation	—	—	—	141,204	141,204
Income (loss) from operations	(2,619,842)	—	—	(141,204)	(2,761,046)
Interest Expense	(445)	—	—	—	(445)
Other Income	9,182	—	—	—	9,182
Income (loss) before provision for income taxes	(2,611,105)	—	—	(141,204)	(2,752,309)
Provision for income taxes	—	—	—	—	—
Net income (loss)	<u>\$ (2,611,105)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (141,204)</u>	<u>\$ (2,752,309)</u>

**Total assets by segment on March 31, 2025 and December 31, 2024:**

	<u>March 31, 2025</u>	<u>December 31, 2024</u>
Technologies	\$ 11,609,457	\$ 11,819,377
Data Center Hosting & Related Services	4,589,740	4,131,189
Asset Management Services	8,993,625	7,530,274
Corporate and Unallocated	8,894,518	11,477,837
	<u>\$ 34,087,340</u>	<u>\$ 34,958,677</u>

All assets are located in the United States.

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**NOTE 12 – 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 three months ended March 31, 2025, the Company matched 100% of the first 4% of eligible employee compensation that was contributed to the 401(k) Plan. For the three months ended March 31, 2025, the Company recognized expense for matching cash contributions to the 401(k) Plan totaling \$69,131.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

Frank Lonegro serves on the Board of Directors and is a member of the Audit Committee. Mr. Lonegro is the Chief Executive Officer of Landstar System, Inc. (“Landstar”), based in Jacksonville, Florida. The Company has previously utilized Landstar for shipping services including transporting large items. Most recently, Landstar was the designated vendor involved in shipping an Edge Data Center to an Amtrak site in Secaucus, New Jersey. Mr. Lonegro was not involved in the selection of his company by the Company, with which there was an existing relationship pre-dating Mr. Lonegro’s appointment to the Board of the Company. Mr. Lonegro did not participate in any Board discussions or votes relating to the selection of Landstar nor approval of the transactions with Landstar. The terms of these transactions were reviewed and approved by the management team. For the three months ended March 31, 2025 and March 31, 2024, the Company expensed \$8,690 and zero, respectively, on transactions relating to Landstar. For the three months ended March 31, 2025 and March 31, 2024, the amounts owed were zero and zero, respectively, and are included in accounts payable in the accompanying balance sheets.

In the fourth quarter of 2022, the Company elected to not renew a support contract with an existing customer due to a change in focus by the Company away from its Integrated Correctional Automation System (“iCAS”) business and the limited amount of revenue expected from that business going forward. On June 29, 2023, the Company completed a transaction whereby it sold assets related to its iCAS business and a recommendation to that customer to engage with the eventual buyer going forward. The transaction was completed with a third-party buyer of which the Company’s then former and now current Chief Financial Officer is a director. The former officer, who was rehired as our CFO in May of 2024, did not participate in the transaction on behalf of the Company which was negotiated by the CEO.

In late 2024, Duos engaged with FIG to assist in FIG’s purchase of approximately 850 Mega Watts of electrical generation capacity (consisting of 30 mobile gas turbine generators) and associated equipment to support their installation and operation (“balance of plant”). In late November 2024, Sawgrass Buyer LLC, an entity formed and owned by FIG, executed an asset purchase agreement with Atlas Corporation, APR Energy Holdings Limited and a number of its wholly-owned affiliates (collectively, “APR”). Chuck Ferry, our CEO, was formerly the CEO of APR from 2018 to 2020. The transaction closed on December 31, 2024. At Closing, Sawgrass Buyer LLC entered into an Asset Management Agreement (“AMA”) with the Company under which a substantial portion of company staff, including certain members of the management team (including Mr. Ferry), would oversee operations of Sawgrass Buyer LLC. The AMA term is two years and subject to customary cancellation provisions. At closing, the Company also received a 5% non-voting equity ownership interest in Sawgrass APR Holdings, LLC (“Sawgrass Parent”), the ultimate parent company of Sawgrass Buyer LLC. As part of the transaction, certain members of the Company’s management team, including Charles Ferry, Duos’ Chief Executive Officer, and Christopher King, Duos’ Chief Operating Officer, will serve in similar positions with New APR in addition to their roles at the Company. Mr. Ferry will also be Executive Chairman and a member of the Board of New APR. Mr. Goldfarb, the Company’s CFO, will be an observer on the board of New APR but will have no executive role or management responsibilities at the new entity. The Company will continue to pay the full compensation for Mr. Ferry, Mr. King and one other employee, with New APR covering 50% of that cost.

As a result of the relationships between Duos Energy Corporation and the FIG related entities described above, Sawgrass APR Holdings LLC (“Sawgrass Parent”) and New APR Energy, LLC (“New APR”) are considered related parties to the Company. (See Notes 3, 5, 6 and 10 for related party balances).

In 2024, the Company borrowed \$2,200,000 from two lenders that are related parties because together they hold more than 10% of the Company’s voting common stock. (See Note 7). The Company began early repayments of the loan in the amount of \$1.0 million, during the first three months ended March 31, 2025.

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**NOTE 14 – SALE OF ASSETS**

On June 29, 2023, the Company completed a transaction whereby it sold assets related to its Integrated Correctional Automation System (iCAS) business with a single customer. In the fourth quarter of 2022, the Company elected to not renew a support contract due to the limited nature of the business. The transaction was completed with a third-party buyer of which the Company's then former Chief Financial Officer and now Current Chief Financial Officer is a director. Said then former officer did not participate in the transaction on behalf of the Company.

The assets of the iCAS business were sold for a convertible promissory note with a principal amount of \$165,000 with a 10% original issue discount as well as common stock purchase warrants. The note matures in 2 years from the date of sale and is convertible immediately through the later of the maturity date or payment by the borrower of the default amount, as defined in the note, into shares of the buyer's common stock at a conversion price of \$0.003 or 55,000,000 shares. The conversion of the note carries restrictions which include limiting conversion to the extent it would not exceed 4.99% of the common stock outstanding of the buyer. The convertible promissory note is subject to standard anti-dilution provisions.

The common stock purchase warrants are for a total of 55,000,000 common shares of the buyer at an exercise price of \$0.01 per share. The warrants are subject to standard anti-dilution provisions. The warrants are not exercisable until on or after six months from the issuance date and no later than on or before the third anniversary of the issuance date. The Company may exercise the warrants at any time after the six-month anniversary of the issuance date on a cashless basis if there is no effective registration statement covering the resale of the Warrant Shares at prevailing market prices by the holder. The exercise of these warrants is subject to beneficial ownership limits of 4.99% which may be increased by the holder up to 9.99% as defined in the warrant. Given that the shares carried no intrinsic value at the time of the transaction and that the overall fair value is de minimis, the Company has not recorded the warrants associated with the transaction.

The original issue discount is being accrued into interest income over the term of the note.

The note receivable was recorded as follows on March 31, 2025:

	<b>March 31, 2025</b>
Convertible note receivable	\$ 165,000
Less allowance on note receivable	(163,125)
Less unamortized discount	(1,875)
Convertible note receivable, net	<u>\$ —</u>

**NOTE 15 – SUBSEQUENT EVENTS**

On April 1, 2025, the Company awarded an employee 20,000 non-qualified stock options which have a 5-year term and a 3-year vesting period. The exercise price of these qualified stock options was based on the closing price of the common stock on the last trading day prior to grant. The grant date fair value of the stock option is approximately \$69,800, which will be recognized over the vesting period of three years.

On April 1, 2025, the Company issued restricted 10,000 stock awards to two directors for a total of 20,000 shares of restricted stock with 1-year cliff vesting with an aggregate grant-date fair value of \$119,600 based on a \$5.98 price per share.

On April 14, 2025, the Company entered into the First Amendment to the At-The-Market Issuance Sales Agreement (the "Amendment") with Ascendant Capital Markets, LLC, as sales agent. The Amendment increases the aggregate dollar amount of common stock that may be sold under the At-The-Market Issuance Sales Agreement, originally entered into on May 17, 2024, by \$8,850,000, for total capacity of \$16,350,000. On April 14, 2025, the Company also filed a Prospectus Supplement with the SEC relating to the additional \$8,850,000 of common stock that may be sold pursuant to the Amendment.

## **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., and its operating subsidiaries, Duos Technologies, Inc. ("Duos"), Duos Edge AI, Inc. ("Edge") and Duos Energy Corporation ("Energy") (Duos Technologies Group, Inc., Duos, Edge, and Energy collectively the "Company" "we", "our", and "us") from time to time with the Securities and Exchange Commission (the "SEC") contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company's management as well as estimates and assumptions made by Company's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the filings, the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan," "aim," "project," "target," "will," "may," "should," "forecast" or the negative of these terms and similar expressions as they relate to the Company or the Company's management identify forward-looking statements. Such statements typically address the Company's expected future business and financial performance and are subject to risks, uncertainties, assumptions, and other factors, including the risks contained in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2024, relating to the Company's industry, the Company's operations and results of operations, and any businesses that the Company may acquire. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ materially from those anticipated, believed, estimated, expected, intended, or planned.*

*These factors include, but are not limited to, risks related to the Company's ability to continue as a going concern, the Company's ability to generate sufficient cash to continue and expand operations, the competitive environment generally and in the Company's specific market areas, changes in technology, the availability of and the terms of financing, changes in costs and availability of goods and services, economic conditions in general and in the Company's specific market areas, changes in federal, state and/or local government laws and regulations potentially affecting the use of the Company's technology, changes in operating strategy or development plans and the ability to attract and retain qualified personnel. The Company cautions that the foregoing list of risks, uncertainties and factors is not exclusive. Additional information concerning these and other risk factors is contained in the Company's most recently filed Annual Report on Form 10-K, subsequent Quarterly Reports on Form 10-Q, recent Current Reports on Form 8-K, and other filings filed by the Company with the SEC, which are available at the SEC's website, <http://www.sec.gov>. The Company believes its plans, intentions and expectations reflected in or suggested by these forward-looking statements are based on reasonable assumptions. No assurance, however, can be given that the Company will achieve or realize these plans, intentions or expectations. Indeed, it is likely that some of the Company's assumptions may prove to be incorrect. The Company's actual results and financial position may vary from those projected or implied in the forward-looking statements and the variances may be material. Each forward-looking statement speaks only as of the date of the particular statement. We do not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any forward-looking statement is based, except as required by law. All subsequent written and oral forward-looking statements concerning the Company or other matters attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above.*

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

### **Overview**

We intend for this discussion to provide information that will assist in understanding our financial statements, the changes in certain key items in those financial statements, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements.

### **Plan of Operation**

The Company's growth strategy includes expansion of its technology base through organic development efforts, strategic partnerships, and targeted acquisitions where appropriate. The Company provides a broad range of technology solutions with a primary emphasis on the Vision Technology market sector, specifically within the Machine Vision subsector. Machine Vision companies provide imaging-based automatic inspection and analysis for process control, with the potential for expansion into additional industries. Duos is currently developing industry solutions targeting rail, trucking, aviation, and other vehicle-based processes while also expanding into the fast-growing Edge Data Center and power generation markets.

The Company's flagship product, the Railcar Inspection Portal (RIP), enables freight and transit railroad customers and select government agencies to conduct fully automated railcar inspections in real-time as trains move at full speed. The RIP integrates sophisticated optical, laser, and speed sensors with edge computing and artificial intelligence (AI) algorithms to detect safety and security defects instantly, allowing operators to take immediate action.

In 2024, the Company made a strategic decision to leverage its core expertise in high-speed data processing and AI-driven analysis to expand into additional markets. This resulted in the formation of two new subsidiaries:

1. **Duos Edge AI (“Duos Edge”)** – Specializing in high-speed data processing through Edge Data Centers, Duos Edge is focused on serving underserved Tier 3 and Tier 4 markets, providing critical infrastructure for education, healthcare, and enterprise computing needs. The Edge Data Centers support applications requiring real-time response, reducing reliance on centralized cloud-based processing and improving efficiency.
2. **Duos Energy Corporation (“Duos Energy”)** – Established to meet the growing demand for power generation outside of traditional utility grids, Duos Energy provides consulting, asset management, and operational expertise for rapid deployment power generation. Duos Energy has engaged in agreements with Fortress Investment Group (“FIG”) to support power generation solutions, particularly for data centers and AI-driven applications, managing approximately 850 MW of generating capacity.

The strategic expansion into Edge Computing and power generation aligns with the Company's long-term vision to drive growth through diversified revenue streams while leveraging its existing technology infrastructure and domain expertise.

## Prospects and Outlook

The Company is focused on improving operational and technical execution, which, in turn, will enable commercial expansion and new technology offerings. The primary objectives for 2025 and beyond include:

- **Expansion into power generation and energy solutions:** The newly formed Duos Energy subsidiary is positioned to capitalize on the increasing demand for behind-the-meter (BTM) energy solutions. The Company's AMA with New APR, valued at approximately \$42 million over two years, along with its 5% non-voting equity interest in the ultimate parent of New APR, establishes a strong foundation for further market penetration in the fast power sector. This business expansion in conjunction with the revenue generated under the AMA is expected to provide a significant portion of the Company's revenues in 2025.
- **Expansion of the RIP business model:** The Company is shifting to a modular and subscription-based approach, allowing customers to select specific Acquisition Modules suited to their operational needs. This transition provides flexible pricing structures, improves scalability, and enhances recurring revenue streams through “RIP-as-a-Service.”
- **Deployment of AI-powered self-diagnostics:** Enhancing RIP systems with AI-driven self-diagnostics enables real-time monitoring, improved system uptime, and predictive maintenance capabilities, reducing operational disruptions for customers.
- **Integration of Edge Data Centers:** The Company is actively deploying Edge Data Centers to enable faster, localized data processing, particularly in rural and underserved markets. The first six sites are expected to become operational in the first half of 2025, with a further nine sites anticipated for the second half of 2025. These initial Edge Data Centers are providing scalable solutions for enterprise and government clients.
- **Enhancements in artificial intelligence and automation:** The Company continues to refine its proprietary AI solutions, including computer vision, deep learning, and predictive analytics, to improve inspection accuracy and operational efficiency across all product offerings.
- **Expansion into new vehicle inspection markets:** While the Company remains committed to its core rail technology solutions, it continues to explore applications for scanning and inspecting other vehicle types, including trucks, buses, and aircraft. These markets offer potential growth opportunities through partnerships with logistics providers, government agencies, and commercial transport operators.

In 2024, Duos entered a long-term agreement with a major Class 1 railroad, securing data access from its RIPs and enabling new subscription-based services for over 3,000 railcar owners and lessors. This initiative is expected to open up significant new revenue streams while strengthening the Company's market leadership.

The Company recognizes that technology adoption within the rail industry can be a gradual process, requiring substantial capital investment from customers. To accelerate adoption, Duos is focused on demonstrating clear ROI for its solutions, securing long-term service agreements, and pursuing partnerships that enhance its value proposition. Additionally, investments in engineering and software development will ensure compliance with evolving Federal Railroad Administration (FRA) and Association of American Railroad (AAR) standards, further positioning the Company for continued success in the rail sector.

With the diversification into Edge Computing and power generation, coupled with continued growth in its core machine vision and AI-based inspection technologies, the Company is well-positioned to drive increased revenue, improve profitability, and generate long-term shareholder value.

Although the Company's prospects for future revenue growth are anticipated to be favorable, investing in our securities involves risk and careful consideration should be made before deciding to purchase our securities. There are many risks that affect our business and results of operations, some of which are beyond our control and unexpected macro events can have a severe impact on the business. Please see the risk factors identified in “Item 1A – Risk Factors” of our Annual Report on Form 10-K filed with the SEC on March 31, 2025.

## Results of Operations

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

### Comparison for the Three Months Ended March 31, 2025 Compared to Three Months Ended March 31, 2024

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

	For the Three Months Ended March 31,	
	2025	2024
Revenues	\$ 4,952,185	\$ 1,070,680
Cost of revenues	3,638,526	976,048
Gross margin	1,313,659	94,632
Operating expenses	3,103,287	2,855,678
Loss from operations	(1,789,628)	(2,761,046)
Other income (expense)	(290,035)	8,737
Net loss	<u>\$ (2,079,663)</u>	<u>\$ (2,752,309)</u>

### Revenues

	For the Three Months Ended March 31,		
	2025	2024	% Change
Revenues:			
Technology systems	\$ 64,684	\$ 269,855	-76%
Services and consulting	4,887,501	800,825	510%
Total revenues	<u>\$ 4,952,185</u>	<u>\$ 1,070,680</u>	<u>363%</u>

The decreases in technology systems revenues for the quarter ended March 31, 2025, compared to the quarter ended March 31, 2024, is primarily attributed to delays outside of the Company's control with deployment of our two high-speed Railcar Inspection Portals, which are recorded in the technology systems portion of our business. Although these systems remain largely ready for deployment, customer delays at the deployment site continue to prevent installation even though these two high-speed Railcar Inspection Portals were deep into their production and manufacturing phases, which did not allow us to record the next phase of recognition. We believe that the customer is approaching the completion of the local site preparation and is preparing for field installation later this year. The Company is anticipating potential further delays related to this project in light of reviews currently being conducted by the Federal Government. Additionally, the Company continues to see opportunities for expansion of its programs with existing customers. In spite of the timing delays that continue to impact the quarterly results, management remains confident in the long-term potential of the RIP product.

The significant increase in services revenue for the quarter ended March 31, 2025, was primarily driven by Duos Energy beginning to execute on the Asset Management Agreement ("AMA") with New APR that was established on December 31, 2024. Under the AMA, Duos Energy oversees the deployment and operations of a fleet of mobile gas turbines and related balance-of-plant inventory, providing management, sales, and operational support services to New APR. As a result, the Company generated \$3,010,625 in revenue from the AMA during the first quarter of 2025. In addition, the Company recognized \$904,125 in revenue from amortized deferred revenue liability associated with its 5% non-voting equity interest in the ultimate parent of New APR. Revenue from the AMA and the 5% interest is reported under "Services and consulting – related parties" on the income statement. Services revenue from the rail business also grew modestly during the quarter, supported by increases in service pricing across existing customer contracts.

The Company expects services revenue from both its rail and power businesses to continue growing throughout 2025. Growth drivers include the anticipated deployment of additional power plants under the AMA, the expansion of maintenance services related to new rail installations coming online, and the renewal of existing service agreements.



## Cost of Revenues

	For the Three Months Ended March 31,		
	2025	2024	% Change
Cost of revenues:			
Technology systems	\$ 232,264	\$ 583,437	-60%
Services and consulting	3,406,262	392,611	768%
Total cost of revenues	<u>\$ 3,638,526</u>	<u>\$ 976,048</u>	<u>273%</u>

Cost of revenues largely comprises equipment and labor necessary to support the implementation of new systems, support and maintenance of existing systems, software projects, and support of the asset management agreement with New APR.

During the three months ended March 31, 2025, the cost of revenues on technology systems decreased compared to the equivalent period in 2024. This reduction is primarily driven by our ability in Q1 2025 to reallocate certain fixed operating and servicing costs for technology systems to support the Asset Management Agreement, an allocation we could not make in the comparative period because the agreement was not yet in effect. It also reflects the ramp-down of manufacturing ahead of field installation of our two high-speed Railcar Inspection Portals, which has continued to temporarily slow project activity and further reduced cost of revenues while we await customer readiness for site deployment.

Cost of revenues on services and consulting significantly increased in the three months ended March 31, 2025 compared to the prior year period. This rise in costs is primarily due to supporting the AMA with New APR, where Duos Energy oversees the deployment and operations of a fleet of mobile gas turbines and related balance-of-plant inventory, providing management, sales, and operational support services to New APR. An additional contributing factor to the increase in cost of revenues on services and consulting is \$548,121 in amortization expense of the intangible asset related to a nonmonetary transaction, which was not present in the corresponding period of 2024.

## Gross Margin

	For the Three Months Ended March 31,		
	2025	2024	% Change
Revenues	\$ 4,952,185	\$ 1,070,680	363%
Cost of revenues	3,638,526	976,048	273%
Gross margin	<u>\$ 1,313,659</u>	<u>\$ 94,632</u>	<u>1,288%</u>

Gross margin improved in the first quarter of 2025 compared to the same period in 2024, primarily due to Duos Energy beginning execution of the Asset Management Agreement with New APR. This includes \$904,125 in revenue recognized during the three months ending March 31, 2025, related to the Company's 5% non-voting equity interest in the ultimate parent of New APR, which carried no associated costs and therefore contributed at a 100% margin. These revenues and the associated margin contribution were not present in the prior year period. Additionally, when comparing results between periods, the stage of completion for manufacturing and installation activities within our technology business may vary and should be considered in the analysis.

## Operating Expenses

	For the Three Months Ended March 31,		
	2025	2024	% Change
Operating expenses:			
Sales and marketing	\$ 294,975	\$ 553,486	-47%
Research and development	424,431	382,142	11%
General and administration	2,383,881	1,920,050	24%
Total operating expenses	<u>\$ 3,103,287</u>	<u>\$ 2,855,678</u>	<u>9%</u>

During the three months ended March 31, 2025, the Company experienced a modest increase in overall operating expenses compared to the same period in 2024. Sales and marketing costs declined as resources were allocated to costs of service and consulting revenues in support of the Asset Management Agreement with New APR. Conversely, research and development expenses rose 11%, reflecting new engineering hires dedicated to supporting the Asset Management Agreement. General and administrative costs increased 24%, largely due to non-cash stock-based compensation charged for restricted stock granted to the executive team on January 1, 2025, under new employment agreements with a three-year cliff vesting schedule. Additionally, there were general and administrative costs that were allocated to cost of service and consulting revenues in support of the Asset Management Agreement with New APR. Overall, the Company continues to focus on stabilizing operating expenses while meeting the increased needs of our customers.

## Loss from Operations

The loss from operations for the three months ended March 31, 2025 and 2024 was \$1,789,628 and \$2,761,046, respectively. The decrease in loss from operations was primarily the result of increased revenues during the quarter, driven by revenue generated by Duos Energy through the Asset Management Agreement with New APR.

## Other Income/Expense

Other income for the three months ended March 31, 2025 was \$32,542 and \$9,182 for the comparative period in 2024. Interest expense for the three months ended March 31, 2025 was \$322,577 and \$445 for the comparative period in 2024. The increase in interest expense is primarily due to the amortization of the debt discount on the \$2.2 million note and the associated monthly interest expense in 2025; this note had not been entered into in the comparative period.

## Net Loss

The net loss for the three months ended March 31, 2025 and 2024 was \$2,079,663 and \$2,752,309, respectively. The 24% decrease in net loss was mostly attributed to the increase in revenues generated by Duos Energy through the Asset Management Agreement with New APR as described above. Net loss per common share was \$0.18 and \$0.38 for the three months ended March 31, 2025 and 2024, respectively.

## Liquidity and Capital Resources

As of March 31, 2025, the Company has a working capital deficit of \$6,502,554 and the Company had a net loss of \$2,079,663 for the three months ended March 31, 2025.

## Cash Flows

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

	For the Three Months Ended March 31,	
	2025	2024
Net cash used in operating activities	\$ (4,673,425)	\$ (2,032,719)
Net cash used in investing activities	(581,623)	(9,810)
Net cash provided by financing activities	2,788,033	2,578,279
Net increase (decrease) in cash	\$ (2,467,015)	\$ 535,750

Net cash used in operating activities for the three months ended March 31, 2025 and 2024 was \$4,673,425 and \$2,032,719, respectively. The increase in net cash used in 2025 was driven primarily by elevated non-cash add-backs for depreciation, amortization, and stock-based compensation, offset by a significant build-up in accounts receivable as project and service billings outpaced collections coupled with a draw-down of contract liabilities as we execute on the Asset Management Agreement.

Net cash used in investing activities was \$581,623 and \$9,810 for the three months ended March 31, 2025 and 2024, respectively. The increase in 2025 reflects continued investment in capitalized construction-in-progress costs associated with the six edge data centers currently owned by the Company that are being deployed in 2025.

Net cash provided by financing activities for the three months ended March 31, 2025 and 2024 was \$2,788,033 and \$2,578,279, respectively. Cash flows provided by financing activities during the first three months of 2025 were primarily attributable to gross proceeds of \$3,954,940 from our At-The-Market (ATM) offering program, offset partially by \$1,000,000 in repayments toward the principal balance of the secured promissory notes entered into with 21 April Fund LP and 21 April Fund Ltd. Cash flows from financing activities during the first three months of 2024 were primarily attributable to gross proceeds of approximately \$2,745,002 from issuances of Series D and Series E Convertible Preferred Stock.

On a long-term basis, our liquidity is dependent on the successful continuation of the revenue diversification strategy into the Energy and Edge Data Center subsidiaries, and expansion of operations and receipt of revenues across all operating segments. We believe our current capital and revenues are sufficient to fund such expansion and our operations over the next twelve months, although we are dependent on timely payments from our customers for projects and work in process. However, we expect such timely payments to continue. Material cash requirements will be satisfied within the normal course of business including substantial upfront payments from our customers prior to starting projects. The Company may elect to purchase materials and supplies in advance of contract award but where there is a high probability of that award.

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

## Liquidity

Under Accounting Codification ASC 205, 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 consolidated financial statements, the Company had a net loss of \$2,079,663 for the three months ended March 31, 2025. During the same period, cash used in operating activities was \$4,673,425. The working capital deficit and accumulated deficit as of March 31, 2025, were \$6,502,554 and \$76,447,672, respectively.

As previously noted, the Company was successful during 2023 in raising gross proceeds of over \$11,500,000 from the sale of Series E and F Preferred Stock. Additionally, in the first and second quarters of 2024, the Company raised gross proceeds of \$2,995,002 from the issuance of a combination of Series D and E Convertible Preferred Stock (See Note 8). The Company successfully raised approximately \$3,544,689 in gross proceeds through its At-The-Market (ATM) offering program in 2024 and secured an additional \$3,954,940 in gross proceeds during the first two months of 2025. Additionally, during the second quarter of 2025, the Company will again have access to its S-3 “shelf registration” statement allowing the Company to sell additional securities. At the time of this document, the Company estimates that it will have available capacity on its shelf registration which it can utilize to bolster working capital and growth of the business in the event that revenues from its recently executed AMA with New APR do not provide sufficient cash flow to support operations. 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 its business plan, generate enough revenue, and attain consistently profitable operations. We have analyzed our cash flow under “stress test” conditions and have determined that we have sufficient liquid assets on hand or available via the capital markets to maintain operations for at least twelve months from the issuance date of this report.

In addition, management has taken and continues to take actions including, but not limited to, elimination of certain costs that do not contribute to short term revenue, and re-aligning both management and staffing with a focus on improving certain skill sets necessary to build growth and profitability and focusing product strategy on opportunities that are likely to bear results in the relatively short term. The Company believes that, with the combination of commercial sales success, coupled with an S-3 shelf registration availability that is effective April 15, 2025, it will have sufficient working capital to meet its obligations over the following twelve months. In the last twelve months the Company has seen growth in its contracted backlog as well as significant, positive signs from new commercial projects that indicate improvements in future revenues.

Management believes that, at this time, the conditions in our traditional market space with ongoing contract delays, the consequent need to procure certain materials in advance of a binding contract and the additional time needed to execute on new contracts previously reported could put a strain on our cash reserves. However, the anticipated steady cashflow from the AMA and the ability to raise capital via its shelf registration indicate there is no substantial doubt for the Company to continue as a going concern for a period of twelve months. We expect to continue executing the plan to grow our business and achieve profitability as previously discussed. The Company may selectively look at opportunities for fundraising in the future including potential debt offerings to support asset acquisition. Management has extensively evaluated our requirements for the next twelve months and has determined that the Company currently has sufficient cash and access to capital to operate for at least that period.

While no assurance can be provided, management believes that these actions provide the opportunity for the Company to continue as a going concern and to grow its business and achieve profitability with access to additional capital funding. Ultimately the continuation of the Company as a going concern is dependent upon the ability of the Company to continue executing the plan described above which was put in place in late 2024 and will continue in 2025 and beyond. These consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

## Critical Accounting Estimates

### Revenue Recognition

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

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

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

The Company generates revenue from four sources:

1. Technology Systems
2. AI Technologies
3. Technical Support including related party revenues from the AMA agreement which began in January 2025
4. Consulting Services including related party revenues from the AMA agreement which began in January 2025

### Equity Method Investments

If an investment qualifies for the equity method of accounting, the Company’s investment is recorded initially at cost and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. The net income or loss of an unconsolidated equity method investment is allocated to its investors in accordance with the provisions of the operating agreement of the entity. The allocation provisions in these agreements may differ from the ownership interest held by each investor. Differences, if any, between the carrying amount of our investment in the respective equity method investee and the Company’s share of the underlying equity of such equity method investee are amortized over the respective lives of the underlying assets as applicable. These items are reported as a single line item in the consolidated statements of operations as income or loss from investments in unconsolidated equity method investees. Investments are reviewed for changes in circumstance or the occurrence of events that suggest an other-than-temporary event where our investment may not be recoverable.

On December 31, 2024, the Company entered into an Asset Management Agreement (the “AMA”), with New APR, an entity formed by affiliates of Fortress Investment Group (“FIG”). Under the AMA, Duos Energy will manage the deployment and operations of a fleet of mobile gas turbines and balance-of-plant inventory, providing management, sales and operations functions to New APR in connection with the assets. In exchange for services to be performed under the AMA, the Company received an initial cash payment and common units in Sawgrass Parent. While the Company has board representation in Sawgrass Parent, its common units are non-voting and the Company does not control the board of directors of Sawgrass Parent.

Where the Company has an interest in a Variable Interest Entity (“VIE”) it will consolidate any VIE in which the Company has a controlling financial interest and is deemed to be the primary beneficiary. A controlling financial interest has both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact its economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If both of the characteristics are met, the Company is considered to be the primary beneficiary and therefore will consolidate that VIE into the consolidated financial statements.

Investments in partnerships, unincorporated joint ventures and LLCs that maintain specific ownership accounts for each investor are excluded from the scope of ASC 323-10. However, ASC 323-30 provides guidance on applying the criteria for equity method accounting to investments in partnerships, unincorporated joint ventures and LLCs. When an investor in a partnership, unincorporated joint venture or LLC has the ability to exercise significant influence over that investment, it should apply the equity method (ASC 323-10) by analogy (ASC 323-30-25-1).

Sawgrass Parent is deemed to be a VIE and the Company holds a 5% interest in Sawgrass Parent and an interest in the subsidiary New APR through the AMA, both of which are considered variable interests. However, the Company does not represent the primary beneficiary as it does not possess the ability to direct the activities that most significantly impact the economic performance of Sawgrass Parent. Accordingly, the Company does not consolidate Sawgrass Parent. Due to the Company’s interest in Sawgrass Parent, it was determined that the Company has significant influence over Sawgrass Parent. Therefore, the Company accounts for its investment in Sawgrass Parent as an Equity Method Investment.

The Company also concluded that the arrangement with Sawgrass Parent is within the scope of ASC 606, Revenue from contracts with customers, and the common units issued to the Company by Sawgrass Parent represented non-cash consideration. The initial carrying value as of December 31, 2024 of \$7.2 million was measured equal to the fair value of the common units received for future services to be performed under the AMA. The Company recorded \$7.2 million of deferred revenue for services to be performed under the AMA. During the year ended December 31, 2024, the Company did not recognize any revenue associated with the AMA. The Company initially recorded the equity method investment in Sawgrass Parent of \$7.2 million, equal to the fair value of the common units as of December 31, 2024.

Due to the unavailability of Q1-2025 financials from the Sawgrass Parent, the Company has applied a one-quarter lag (in accordance with the appropriate Accounting Standards Codification) in reporting and recording the value of its 5% minority investment. The Company has determined that its 5% interest shall be recorded using the Equity Investment Method whereby Net Profit and Net Loss for any Fiscal Year shall be allocated among the members in such a manner that, as of the end of such fiscal year, the Capital Account Balance of each Member, as increased by the Member’s share of “minimum gain” and “partner

minimum gain” (as such terms are used in Treasury Regulations Section 1.704-2 ), shall, to the extent possible, be equal to the amount which would have been distributed to such Member pursuant to a Hypothetical Liquidation as of the end of the last day of such fiscal year. This approach is consistent with the equity method of accounting as outlined in ASC 323-10-35-6, which will be consistent for each quarter. Consequently, Duos will incorporate the financial results of the Sawgrass Parent into its Q2-2025 SEC filing which will be applied using a management estimate, ensuring that the equity method is consistently applied.

Management believes that the use of estimates and assumptions in applying the equity method is reasonable.

The Company assesses its equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. No impairment losses were recognized during the year ended December 31, 2024 or the three months ended March 31, 2025

## **Impairment of Intangible Assets**

In May 2024, the Company recorded an intangible asset with a fair value of \$11,161,428. This asset represents non-monetary consideration received under a 5-year customer contract, in which the Company will provide maintenance services to the customer. The intangible asset represents Digital Image data rights in the form of a license agreement received by the Company from the customer.

The fair value of the asset was determined on the contract inception date based on the standalone selling price of the service and goods to be provided to the customer under the 5-year contract since the Company could not reasonably estimate the fair value of the data rights received. The non-monetary transaction was accounted for in accordance with Accounting Standards Codification (ASC) 606-10-32-21 through ASC 606-10-32-24.

On the contract inception date, the Company also recorded an immediate amortization of the intangible asset of \$199,008 related to the pre-contract costs incurred relating to a pilot program for this contract and recorded deferred revenue of \$11,161,428 as contract liabilities with a current and non-current component, and then immediately recognized \$199,008 of this deferred revenue relating to the completed pilot program. The remaining deferred revenue is being recognized over the 5-year term.

In accordance with ASC 350-30-35-1, the amortization for the intangible asset is based on its useful life and the useful life of an intangible asset is the period over which it is expected to contribute directly or indirectly to the future cash flows of that entity. Accordingly, amortization of the intangible asset is recognized over the life of the contract of five years.

In accordance with ASC 350-30-35-14, an intangible asset that is subject to amortization shall be reviewed for impairment if the carrying amount of the asset is not recoverable and exceeds its fair value.

There is no indication of impairment at March 31, 2025.

## **Stock Based Compensation**

The Company accounts for employee and non-employee stock-based compensation in accordance with ASC 718-10, “*Share-Based Payment*,” which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including stock options, restricted stock units, and employee stock purchases based on estimated fair values. The stock-based compensation carries a graded vesting feature subject to the condition of time of employment service with awarded stock-based compensation tranches vesting evenly upon the anniversary date of the award.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing formula. In accordance with ASC 718-10-35-8, the Company elected to recognize the fair value of the stock award using the graded vesting method as time of employment service is the criteria for vesting. 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.

For restricted stock awards, fair value is measured at the closing market price of the Company’s common stock on the grant date. That value is then recognized over the requisite vesting period.

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.

## **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 VP of Accounting, 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 VP of Accounting 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 VP of Accounting, as appropriate to allow timely decisions regarding required disclosure.

### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended March 31, 2025 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 any of our Company's or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

### Item 1A. Risk Factors.

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2025.

### 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.

#### Trading Plans

During the quarter ended March 31, 2025, no director or Section 16 officer adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements (in each case, as defined in Item 408(a) of Regulation S-K).

### Item 6. Exhibits.

Exhibit No.	Description
10.1	<a href="#">Employment Agreement, made and entered into as of January 1, 2025, between Duos Technologies Group, Inc. and Charles P. Ferry (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 25, 2024)</a>
10.2	<a href="#">Employment Agreement, made and entered into as of January 1, 2025, between Duos Technologies Group, Inc. and Adrian Goldfarb (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 25, 2024)</a>
10.3	<a href="#">Employment Agreement, made and entered into as of January 1, 2025, between Duos Technologies Group, Inc. and Christopher King (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 25, 2024)</a>
31.1*	<a href="#">Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a))</a>
31.2*	<a href="#">Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a))</a>
32.1**	<a href="#">Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2**	<a href="#">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</a>
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

\*\* 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: May 15, 2025

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

Date: May 15, 2025

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

**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: May 15, 2025

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

**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: May 15, 2025

By: /s/ Adrian G. Goldfarb

Adrian G. Goldfarb  
Chief Financial Officer

**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 March 31, 2025, 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 March 31, 2025, 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 March 31, 2025, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2025

By: /s/ Charles P. Ferry

Charles P. Ferry  
Chief Executive Officer

**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 March 31, 2025, 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 March 31, 2025, 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 March 31, 2025, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2025

By: /s/ Adrian G. Goldfarb

Adrian G. Goldfarb  
Chief Financial Officer