
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (date of earliest event reported): May 11, 2020

RED VIOLET, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

001-38407
(Commission
File Number)

82-2408531
(I.R.S. Employer
Identification Number)

2650 North Military Trail, Suite 300, Boca Raton, FL 33431
(Address of principal executive offices)

561-757-4000
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol (s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	RDVT	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Item 2.02 Results of Operations and Financial Condition

On May 11, 2020, Red Violet, Inc., a Delaware corporation (the “Company”), issued a press release announcing its financial results for the first quarter ended March 31, 2020 (the “Earnings Release”). A copy of the Earnings Release is furnished herewith as Exhibit 99.1.

Also on May 11, 2020, following the issuance of the Earnings Release, the Company conducted a conference call to discuss the reported financial results for the first quarter ended March 31, 2020. The Company had issued a press release on May 6, 2020 to announce the scheduling of the conference call. A copy of the transcript of the conference call is furnished herewith as Exhibit 99.2.

The information included herein and in Exhibit 99.1 and Exhibit 99.2 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (“Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

- 99.1 Press Release dated May 11, 2020.
 - 99.2 May 11, 2020 conference call script.
 - 104 Cover page Interactive Data File (embedded within the inline XBRL file).
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SIGNATURES

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

Red Violet, Inc.

Date: May 13, 2020

By: /s/ Derek Dubner
Derek Dubner
Chief Executive Officer (Principal Executive Officer)

red violet Announces First Quarter 2020 Financial Results

Revenue Increases 62% to a Record \$9.3 Million with Strong Margin Expansion and Positive Cash Flow from Operations

BOCA RATON, Fla. – May 11, 2020 – Red Violet, Inc. (NASDAQ: RDVT), a leading analytics and information solutions provider, today announced financial results for the quarter ended March 31, 2020.

“We are pleased to report a ninth consecutive record quarter, achieving revenue of \$9.3 million and adjusted EBITDA of \$1.7 million, notwithstanding the impact to our business of Covid-19 in the back half of March. In order to ensure the safety of our employees, customers, vendors, and shareholders, we invoked our contingency planning and implemented teleworking from home across the organization as well as halting all company travel,” stated Derek Dubner, red violet’s CEO. “In the second half of March, we experienced reduced transactional volume as customers adjusted to the effects of this unprecedented event. We have put into effect prudent cost containment strategies and are proactively working with affected customers to foster enduring relationships. As stay-at-home orders are lifting and economic pressures subside, we are well-positioned for pent-up customer demand resulting from these transitory impacts and are executing upon opportunities to capture market share in markets that are currently seeing increasing demand for our solutions. Our business was as strong as ever heading into this external event and we are confident in our ability to navigate this period. I am extremely proud of the performance of our team and the business overall during this challenging time and am looking forward to accelerated growth as the economy regains its footing.”

First Quarter Financial Results

For the three months ended March 31, 2020 as compared to the three months ended March 31, 2019:

- Total revenue increased 62% to \$9.3 million.
- Net loss was \$1.5 million (including share-based compensation expense of \$2.2 million) as compared to \$1.4 million (including share-based compensation expense of \$0.3 million).
- Adjusted EBITDA was \$1.7 million as compared to a negative \$0.4 million.
- Gross profit increased 105% to \$5.2 million. Gross margin increased to 55% from 44%.
- Adjusted gross profit increased 96% to \$6.0 million. Adjusted gross margin increased to 65% from 53%.
- Generated \$1.2 million in cash from operating activities in the first quarter.
- Cash and cash equivalents were \$11.5 million as of March 31, 2020.

First Quarter and Recent Business Highlights

- Leveraging the power of CORE™, red violet’s cloud-based, next-generation technology platform, idiCORE delivered over 260 new customers in the first quarter.
- Recognized as a leading innovative technology in the real estate industry, our subscription app-based solution, FOREWARN®, added over 5,900 users in the first quarter.
- Revenue attributable to customer contracts was 69%, our highest quarter ever, versus transactional usage. Contracts are generally annual contracts or longer with auto renewal.
- Strong revenue growth from existing customer expansion. Growth revenue from existing customers grew 46% over the first quarter of the prior year.

Use of Non-GAAP Financial Measures

Management evaluates the financial performance of our business on a variety of key indicators, including non-GAAP metrics of adjusted EBITDA, adjusted gross profit and adjusted gross margin. Adjusted EBITDA is a financial measure equal to net loss, the most directly comparable financial measure based on GAAP, excluding interest income, net, depreciation and amortization, share-based compensation expense, litigation costs, net, and write-off of long-lived assets and others. We define adjusted gross profit as revenue less cost of revenue (exclusive of depreciation and amortization), and adjusted gross margin as adjusted gross profit as a percentage of revenue.

Conference Call

In conjunction with this release, red violet will host a conference call and webcast today at 4:30pm ET to discuss its quarterly results and provide a business update. To listen to the call, please dial (877) 665-6635 for domestic callers or (602) 563-8608 for international callers, using the passcode 2695092. To access the live audio webcast, visit the Investors section of the red violet website at www.redviolet.com. Please login at least 15 minutes prior to the start of the call to ensure adequate time for any downloads that may be required. Following the completion of the conference call, a replay will be available for approximately one week by dialing (855) 859-2056 or (404) 537-3406 with the replay passcode 2695092. An archived webcast of the conference call will be available on the Investors section of the red violet website at www.redviolet.com.

About red violet®

At red violet, we believe that time is your most valuable asset. Through powerful analytics, we transform data into intelligence, in a fast and efficient manner, so that our clients can spend their time on what matters most - running their organizations with confidence. Through leading-edge, proprietary technology and a massive data repository, our analytics and information solutions harness the power of data fusion, uncovering the relevance of disparate data points and converting them into comprehensive and insightful views of people, businesses, assets and their interrelationships. We empower clients across markets and industries to better execute all aspects of their business, from managing risk, recovering debt, identifying fraud and abuse, and ensuring legislative compliance, to identifying and acquiring customers. At red violet, we are dedicated to making the world a safer place and reducing the cost of doing business. For more information, please visit www.redviolet.com.

FORWARD-LOOKING STATEMENTS

This press release contains "forward-looking statements," as that term is defined under the Private Securities Litigation Reform Act of 1995 (PSLRA), which statements may be identified by words such as "expects," "plans," "projects," "will," "may," "anticipate," "believes," "should," "intends," "estimates," and other words of similar meaning. Such forward looking statements are subject to risks and uncertainties that are often difficult to predict, are beyond our control and which may cause results to differ materially from expectations, including the impact of the Covid-19 pandemic on our current and future results of operations and whether we will be able to achieve accelerated growth as the economy regains its footing. Readers are cautioned not to place undue reliance on these forward-looking statements, which are based on our expectations as of the date of this press release and speak only as of the date of this press release and are advised to consider the factors listed above together with the additional factors under the heading "Forward-Looking Statements" and "Risk Factors" in red violet's Form 10-K for the year ended December 31, 2019 filed on March 12, 2020, as may be supplemented or amended by the Company's other SEC filings. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

RED VIOLET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)
(unaudited)

	March 31, 2020	December 31, 2019
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 11,454	\$ 11,776
Accounts receivable, net of allowance for doubtful accounts of \$19 and \$40 as of March 31, 2020 and December 31, 2019, respectively	3,039	3,543
Prepaid expenses and other current assets	1,116	722
Total current assets	15,609	16,041
Property and equipment, net	616	660
Intangible assets, net	25,310	24,034
Goodwill	5,227	5,227
Right-of-use assets	2,509	2,620
Other noncurrent assets	226	289
Total assets	\$ 49,497	\$ 48,871
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 2,229	\$ 2,138
Accrued expenses and other current liabilities	816	1,571
Current portion of operating lease liabilities	506	491
Deferred revenue	207	128
Total current liabilities	3,758	4,328
Noncurrent operating lease liabilities	2,327	2,459
Total liabilities	6,085	6,787
Shareholders' equity:		
Preferred stock—\$0.001 par value, 10,000,000 shares authorized, and 0 shares issued and outstanding, as of March 31, 2020 and December 31, 2019	-	-
Common stock—\$0.001 par value, 200,000,000 shares authorized, 11,693,162 and 11,657,912 shares issued, 11,590,015 and 11,554,765 shares outstanding, as of March 31, 2020 and December 31, 2019	12	12
Treasury stock, at cost, 103,147 shares as of March 31, 2020 and December 31, 2019	(1,255)	(1,255)
Additional paid-in capital	61,996	59,187
Accumulated deficit	(17,341)	(15,860)
Total shareholders' equity	43,412	42,084
Total liabilities and shareholders' equity	\$ 49,497	\$ 48,871

RED VIOLET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share data)
(unaudited)

	Three Months Ended March 31,	
	2020	2019
Revenue	\$ 9,300	\$ 5,734
Costs and expenses⁽¹⁾:		
Cost of revenue (exclusive of depreciation and amortization)	3,292	2,669
Sales and marketing expenses	2,176	1,500
General and administrative expenses	4,434	2,365
Depreciation and amortization	910	618
Total costs and expenses	<u>10,812</u>	<u>7,152</u>
Loss from operations	(1,512)	(1,418)
Interest income, net	31	40
Loss before income taxes	(1,481)	(1,378)
Income taxes	-	-
Net loss	<u>\$ (1,481)</u>	<u>\$ (1,378)</u>
Loss per share:		
Basic and diluted	<u>\$ (0.13)</u>	<u>\$ (0.13)</u>
Weighted average number of shares outstanding:		
Basic and diluted	<u>11,583,214</u>	<u>10,267,680</u>
<hr/>		
(1) Share-based compensation expense in each category:		
Sales and marketing expenses	\$ 154	\$ 87
General and administrative expenses	2,067	187
Total	<u>\$ 2,221</u>	<u>\$ 274</u>

RED VIOLET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(unaudited)

	Three Months Ended March 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,481)	\$ (1,378)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	910	618
Share-based compensation expense	2,221	274
Write-off of long-lived assets	17	30
Provision for bad debts	190	154
Noncash lease expenses	111	103
Changes in assets and liabilities:		
Accounts receivable	314	(677)
Prepaid expenses and other current assets	(394)	(359)
Other noncurrent assets	63	85
Accounts payable	91	(97)
Accrued expenses and other current liabilities	(755)	143
Deferred revenue	79	23
Operating lease liabilities	(117)	(105)
Net cash provided by (used in) operating activities	<u>1,249</u>	<u>(1,186)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(33)	(15)
Capitalized costs included in intangible assets	(1,538)	(1,430)
Net cash used in investing activities	<u>(1,571)</u>	<u>(1,445)</u>
Net decrease in cash and cash equivalents	\$ (322)	\$ (2,631)
Cash and cash equivalents at beginning of period	11,776	9,950
Cash and cash equivalents at end of period	\$ 11,454	\$ 7,319
SUPPLEMENTAL DISCLOSURE INFORMATION		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Share-based compensation capitalized in intangible assets	\$ 588	\$ 150
Right-of-use assets obtained in exchange of operating lease liabilities	\$ -	\$ 3,042
Operating lease liabilities arising from obtaining right-of-use assets	\$ -	\$ 3,387

Use and Reconciliation of Non-GAAP Financial Measures

Management evaluates the financial performance of our business on a variety of key indicators, including non-GAAP metrics of adjusted EBITDA, adjusted gross profit and adjusted gross margin. Adjusted EBITDA is a financial measure equal to net loss, the most directly comparable financial measure based on GAAP, excluding interest income, net, depreciation and amortization, share-based compensation expense, litigation costs, net, and write-off of long-lived assets and others, as noted in the tables below. We define adjusted gross profit as revenue less cost of revenue (exclusive of depreciation and amortization), and adjusted gross margin as adjusted gross profit as a percentage of revenue.

(In thousands)	Three Months Ended March 31,	
	2020	2019
Net loss	\$ (1,481)	\$ (1,378)
Interest income, net	(31)	(40)
Depreciation and amortization	910	618
Share-based compensation expense	2,221	274
Litigation costs, net	-	94
Write-off of long-lived assets and others	111	30
Adjusted EBITDA	\$ 1,730	\$ (402)

The following is a reconciliation of gross profit, the most directly comparable GAAP financial measure, to adjusted gross profit:

(In thousands)	Three Months Ended March 31,	
	2020	2019
Revenue	\$ 9,300	\$ 5,734
Cost of revenue (exclusive of depreciation and amortization)	3,292	2,669
Depreciation and amortization of intangible assets	850	554
Gross profit	5,158	2,511
Depreciation and amortization of intangible assets	850	554
Adjusted gross profit	\$ 6,008	\$ 3,065
Gross margin	55%	44%
Adjusted gross margin	65%	53%

In order to assist readers of our condensed consolidated financial statements in understanding the operating results that management uses to evaluate the business and for financial planning purposes, we present non-GAAP measures of adjusted EBITDA, adjusted gross profit and adjusted gross margin as supplemental measures of our operating performance. We believe they provide useful information to our investors as they eliminate the impact of certain items that we do not consider indicative of our cash operations and ongoing operating performance. In addition, we use them as an integral part of our internal reporting to measure the performance and operating strength of our business.

We believe adjusted EBITDA, adjusted gross profit and adjusted gross margin are relevant and provide useful information frequently used by securities analysts, investors and other interested parties in their evaluation of the operating performance of companies similar to ours and are indicators of the operational strength of our business. We believe adjusted EBITDA eliminates the uneven effect of considerable amounts of non-cash depreciation and amortization, share-based compensation expense and the impact of other non-recurring items, providing useful comparisons versus prior periods or forecasts. Our adjusted gross profit is a measure used by management in evaluating the business's current operating performance by excluding the impact of prior historical costs of assets that are expensed systematically and allocated over the estimated useful lives of the assets, which may not be indicative of the current operating activity. Our adjusted gross profit is calculated by using revenue, less cost of revenue (exclusive of depreciation and amortization). We believe adjusted gross profit provides useful information to our investors by eliminating the impact of non-cash depreciation and amortization, and specifically the amortization of software developed for internal use, providing a baseline of our core operating results that allow for analyzing trends in our underlying business consistently over multiple periods. Adjusted gross margin is calculated as adjusted gross profit as a percentage of revenue.

Adjusted EBITDA, adjusted gross profit and adjusted gross margin are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, financial measures presented in accordance with GAAP. The way we measure adjusted EBITDA, adjusted gross profit and adjusted gross margin may not be comparable to similarly titled measures presented by other companies, and may not be identical to corresponding measures used in our various agreements.

SUPPLEMENTAL METRICS

The following metrics are intended as a supplement to the financial statements found in this release and other information furnished or filed with the SEC. These supplemental metrics are not necessarily derived from any underlying financial statement amounts. We believe these supplemental metrics help investors understand trends within our business and evaluate the performance of such trends quickly and effectively. In the event of discrepancies between amounts in these tables and the Company's historical disclosures or financial statements, readers should rely on the Company's filings with the SEC and financial statements in the Company's most recent earnings release.

We intend to periodically review and refine the definition, methodology and appropriateness of each of these supplemental metrics. As a result, metrics are subject to removal and/or changes, and such changes could be material.

(Dollars in thousands)	(Unaudited)							
	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
Customer metrics								
idiCORE - billable customers ⁽¹⁾	3,302	3,438	3,627	4,020	4,370	4,781	5,064	5,326
FOREWARN - users ⁽²⁾	5,095	7,872	11,397	15,444	19,721	23,853	30,577	36,506
Revenue metrics								
Contractual revenue % ⁽³⁾	52%	64%	66%	67%	62%	66%	66%	69%
Net revenue attrition % ⁽⁴⁾	10%	6%	5%	5%	5%	6%	6%	8%
Revenue from new customers ⁽⁵⁾	\$ 802	\$ 842	\$ 1,096	\$ 1,285	\$ 1,596	\$ 1,406	\$ 1,018	\$ 1,417
Base revenue from existing customers ⁽⁶⁾	\$ 2,472	\$ 2,934	\$ 3,127	\$ 3,593	\$ 4,480	\$ 5,578	\$ 6,690	\$ 6,629
Growth revenue from existing customers ⁽⁷⁾	\$ 635	\$ 584	\$ 485	\$ 856	\$ 1,169	\$ 1,273	\$ 1,342	\$ 1,254
Other metrics								
Employees - sales and marketing	33	37	46	47	48	48	51	51
Employees - support	7	5	6	6	7	8	7	8
Employees - infrastructure	11	9	11	12	12	13	11	13
Employees - engineering	20	22	21	20	20	25	23	26
Employees - administration	14	14	14	14	14	13	16	15

- (1) We define a billable customer of idiCORE as a single entity that generated revenue in the last month of the period. Billable customers are typically corporate organizations. In most cases, corporate organizations will have multiple users and/or departments purchasing our solutions, however, we count the entire organization as a discrete customer.
- (2) We define a user of FOREWARN as a unique person that has a subscription to use the FOREWARN service as of the last day of the period. A unique person can only have one user account.
- (3) Contractual revenue % represents revenue generated from customers pursuant to pricing contracts containing a monthly fee and any additional overage divided by total revenue. Pricing contracts are generally annual contracts or longer, with auto renewal.
- (4) Net revenue attrition is defined as the revenue lost as a result of customer attrition, net of reinstated customer revenue, excluding FOREWARN revenue. Revenue is measured once a customer has generated revenue for six consecutive months. Revenue is considered lost when all revenue from a customer ceases for three consecutive months; revenue generated by a customer after the three-month loss period is defined as reinstated revenue. Net revenue attrition percentage is calculated on a trailing twelve-month basis, the numerator of which is the revenue lost during the period due to attrition, net of reinstated revenue, and the denominator of which is total revenue based on an average of total revenue at the beginning of each month during the period.
- (5) Revenue from new customers represents the total monthly revenue generated from new customers in a given period. A customer is defined as a new customer during the first six months of revenue generation.
- (6) Base revenue from existing customers represents the total monthly revenue generated from existing customers in a given period that does not exceed the customers' trailing six-month average revenue. A customer is defined as an existing customer six months after their initial month of revenue.
- (7) Growth revenue from existing customers represents the total monthly revenue generated from existing customers in a given period in excess of the customers' trailing six-month average revenue.

Investor Relations Contact:

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Red Violet, Inc. (NASDAQ: RDVT)**First Quarter 2020 Earnings Results Conference Call – May 11, 2020****Company Participants:**

Camilo Ramirez, Director of Finance and Investor Relations

Derek Dubner, Chairman and Chief Executive Officer

Dan MacLachlan, Chief Financial Officer

Operator:

Good day ladies and gentlemen, and welcome to red violet's first quarter 2020 earnings conference call. At this time, all participants are in a listen only mode. Later we will conduct a question and answer session and instructions will follow at that time. If anyone should require operator assistance, please press star then zero on your touch tone telephone.

As a reminder this call is being recorded.

I would now like to introduce your host for today's conference Camilo Ramirez, Director of Finance and Investor Relations. Please go ahead.

Camilo Ramirez:

Good afternoon and welcome. Thank you for joining us today to discuss our first quarter 2020 financial results. With me today is Derek Dubner, our Chief Executive Officer, and Dan MacLachlan, our Chief Financial Officer. Our call today will begin with comments from Derek and Dan, followed by a question and answer session.

I would like to remind you that this call is being webcast live and recorded. A replay of the event will be available following the call on our website. To access the webcast, please visit our Investors page on our website www.redviolet.com.

Before we begin, I would like to advise listeners that certain information discussed by management during this conference call are forward-looking statements covered under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with the company's business. The company undertakes no obligation to update the information provided on this call. For a discussion of risks and uncertainties associated with red violet's business, I encourage you to review the company's filings with the Securities and Exchange Commission, including the most recent Annual Report on Form 10-K and the subsequent 10-Qs.

During the call, we may present certain non-GAAP financial information relating to adjusted gross profit, adjusted gross margin and adjusted EBITDA. Reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measure are provided in the first quarter earnings press release issued earlier today. In addition, certain supplemental metrics that are not necessarily derived from any underlying financial statement amounts may be discussed and these metrics and their definitions can also be found in the earnings press release issued earlier today.

With that, I am pleased to introduce red violet's Chief Executive Officer, Derek Dubner.

Thank you, and good afternoon to those joining us today to discuss our first quarter 2020 results. We are pleased to report a ninth consecutive record quarter, achieving record revenue of \$9.3 million, a 62% increase over first quarter 2019. Our base revenue from existing customers grew \$3.0 million, or 84%, and our growth revenue from existing customers grew \$0.4 million, or 46%. Adjusted gross profit increased 96% to \$6.0 million and our adjusted gross margin increased to 65% from 53%. Adjusted EBITDA was \$1.7 million for the quarter, compared to a negative \$0.4 million in the first quarter of 2019. During the quarter, we added over 260 new customers to idiCORE and over 5,900 users to FOREWARN. We are very pleased with our performance this quarter given the headwinds we experienced in the back half of March due to the impacts of the coronavirus pandemic.

The U.S., like other countries around the world, is being challenged by an unprecedented crisis in this pandemic that affects the health and economic well-being of our people. It is imperative that we first express our sympathy to all of those affected and special appreciation to the front-line healthcare and other essential workers who tirelessly and selflessly work to ensure our safety, health and well-being. The incidence of Covid-19 in the United States has had a devastating impact on many businesses. Many industries ground to a halt amid a wave of stay-at-home orders by federal, state and local authorities in the second half of March. In advance of these mandates, and in order to ensure the health and well-being of our employees, customers, vendors, and shareholders, we implemented teleworking from home across the organization and halted all company travel. Due to our cloud-native infrastructure and thorough contingency planning, our transition to teleworking was seamless. I am very proud of our team and I thank them for their planning and brilliant execution. Our highest priority today is the continued safety and well-being of our employees. Each and every team member has contributed to our collective success throughout our history. This team has brought us here, and it is this team that will carry us through this time of adversity and beyond. We made a commitment internally early on in this crisis that we would do all that we can to ensure not only the safety, but also the financial well-being of our employees and their families. In line with this commitment, to date we have not furloughed, laid off, or reduced the compensation or benefits of any employee as a result of this crisis. I am honored to “work alongside” each and every red violet team member.

I’d like to speak a bit about our customers and the impact that we observed of this very unique circumstance. Our customers were impacted in several ways. The abrupt government-mandated, stay-at-home orders negatively affected those customers lacking the infrastructure and/or planning to navigate this transition. In our collections vertical, we heard from some customers who paused or diminished activity in March due to concerns about the perception of predatory behavior during a time of crisis and due to temporary state and local government moratoria on certain collection efforts such as foreclosures, evictions and wage garnishments. As to our idiVERIFIED product, which is an ancillary employment verification service that we offer to complement our suite of collections offerings, we saw diminished volumes in the last two weeks of March due to the inability to contact the appropriate human resources personnel to verify debtors’ employment status. Within our real estate vertical, and specifically within real estate marketing, we saw several customers affected as they postponed some of their marketing efforts in anticipation of an expected decline in housing activity during this period. We are working closely with affected customers to assist them through this interim period, fostering our relationships in anticipation of a gradual return to normalcy.

We are well-positioned to endure this exogenous event as we have a solid business model that serves a diverse set of industries with solutions that are essential for a wide variety of transactions, all built upon a stable base of recurring revenue. Revenue attributable to customer contracts was 69% in the first quarter, our highest quarter ever. We fully expect any impact to customer demand to be transitory given the causes are identifiable and history guides that this demand should return upon a reversion to normalcy. In fact, we believe that demand from affected customers will not only revert back to pre-crisis levels in time, but given our positioning, the nature of these industries and our experience serving them, we expect to see additional pent-up demand for our products and solutions.

Our business model is durable and proven. The model, which has evolved over the years from prior businesses that the red violet team has built and sold to global information management companies, has a demonstrable track record of success weathering economically challenging times. This model has endured the bursting of the dot-com bubble, the 9/11 terrorist attacks, and the financial meltdown of 2008. What we know from times of financial instability is that certain themes re-emerge. Economic crises increase the incidence of fraudulent activity and with heightened risk of fraud, industries of all types must increase their reliance on effective identity verification and fraud detection solutions. As well, the average consumer financial profile deteriorates during these difficult periods, resulting in delinquencies, charge-offs, foreclosures, judgments and wage garnishments, increasing demand for solutions such as ours by collections, legal, process server, and asset recovery customers. Unemployment increases and often results in the redeployment of employees from affected to unaffected industries (as we are seeing today by the increase in hiring by Amazon, Wal-Mart, CVS and others), resulting in stable demand for background screening solutions. With the recent actions by the Federal Reserve to mitigate the economic impacts of the pandemic, and the expectation of low interest rates well into the future, housing activity should resume with those able and on the sidelines looking to purchase and distressed owners looking to sell to alleviate economic pressure. These themes present strong tailwinds to our business model moving forward as our various products and solutions solve for the issues at hand.

We also know that financial crises expose weaknesses in business models. A business may be highly leveraged, or demand for products or services is dependent upon strong consumer confidence, or low margins necessitate high transaction volumes. Our business shares none of these characteristics. Until the recent loan under the CARES Act that Dan will discuss, our company has been debt-free, we benefit from transactions driven by both consumer strength and weakness, and our fixed-cost model delivers operational leverage and strong margins. As we have amassed a trove of data assets internally, we have no supply chain issues. We have a strong balance sheet and are taking prudent measures to contain costs during this period of economic uncertainty. Our business was as strong as ever heading into this period and we are confident in our ability to not only navigate this period, but to emerge in strong fashion.

As we have said many times, we are customer-centric at our core. We listen to our customers' needs. Today, that is more important than ever. While businesses need to solve for the complex issues that they face, in times like these, they are more price sensitive, looking to offset the negative impacts to their business. As I have discussed in the past, our next-generation, cloud-native platform and infrastructure enables us to deliver solutions to our customers with ease of access and little implementation cost, while delivering greater speed, accuracy, and scalability. Stated simply, this construct enables us to deliver a more targeted solution to our customers at a better price than the competition. We view this time as a tremendous opportunity to maintain durable relationships with existing customers and to strategically capture market share from our competition during this transitional period. In fact, we continue to add new customers throughout this period.

Notwithstanding the headwinds that this event presented, we are committed to the continued expansion of our business. We are early in our evolution as a company and we are working relentlessly to accomplish our stated objectives – entry into new industries, further penetration into existing markets, and the introduction of new products and solutions. I am extremely proud of the performance of our team and the business overall during this time and am looking forward to accelerated growth as the economy regains its footing. With that, I turn it over to Dan to discuss the financials.

Dan MacLachlan

Thank you, Derek, and good afternoon. To reiterate Derek's sentiments during these unprecedented times, I want to extend my best wishes to all our employees, customers, shareholders, vendors and partners. I hope you and your families are and remain safe and healthy. We had a great quarter, despite the Covid-19 headwinds we faced in the second half of March. Across the entire organization, our teams have been focused, disciplined and incredibly productive during this work-from-home period. We're extremely proud of how quickly our team adapted and how resilient the overall business has been during this challenging time. We have a strong balance sheet and are extremely confident in our ability to navigate this period, positioning the business for accelerated growth as the economy starts to open back up. Today, I'll start with a review of the quarter and then spend some time at the end discussing our business positioning relative to Covid-19.

Starting with our consolidated results, for clarity, all the comparisons I will discuss today will be against the first quarter of 2019, unless noted otherwise.

Revenue increased 62% to \$9.3 million led by strong growth from existing customer expansion. Our base revenue from existing customers grew \$3.0 million, or 84%, and our growth revenue from existing customers grew \$0.4 million, or 46%. Adjusted gross profit increased 96% to \$6.0 million and our adjusted gross margin increased to 65% from 53%. Adjusted EBITDA was \$1.7 million, compared to a negative \$0.4 million in the first quarter of 2019.

Continuing to the details of our P&L, as mentioned, revenue was \$9.3 million for the first quarter. During the quarter, we added over 260 new customers to idiCORE and over 5,900 users to FOREWARN, which given the uncertainty playing out in the economy during this time was extremely encouraging. We continue to see the adoption of our solutions by larger customers and although we experienced reduced transactional volume in the second half of March, our contractual revenue increased to 69%, the highest it has been in our history.

Moving down the P&L, our cost of revenue was \$3.3 million compared to \$2.7 million for the first quarter 2019. This \$0.6 million increase was a result of increases in data licensing and infrastructure costs. Adjusted gross profit increased 96% to \$6.0 million, producing an adjusted gross margin of 65%, a 12 percentage point increase over first quarter 2019.

Sales and marketing expenses increased \$0.7 million to \$2.2 million for the quarter. The increase was due primarily to increased headcount and sales commissions related to revenue growth. The \$2.2 million of sales and marketing expense for the quarter consisted primarily of \$1.1 million in employee salaries and benefits and \$0.5 million in sales commissions.

General and administrative expenses were \$4.4 million for the quarter, consisting primarily of \$2.1 million of non-cash share-based compensation, \$1.2 million of employee salaries and benefits and \$0.6 million in accounting, IT and other professional fees. Compared to the first quarter 2019, general and administrative expenses increased \$2.0 million, attributed primarily to a \$1.9 million increase in non-cash share-based compensation.

Depreciation and amortization was \$0.9 million for the quarter, compared to \$0.6 million in the first quarter 2019. This increase was primarily the result of the amortization of internally developed software.

Net loss was \$1.5 million for the quarter, compared to \$1.4 million for the first quarter 2019. The slight increase in net loss was primarily the result of an increase in non-cash share-based compensation expense of \$1.9 million and a \$0.6 million increase in sales and marketing expenses, partially offset by the increase in gross profit.

We reported a loss of 13 cents per share for the quarter based on a weighted average share count of 11.6 million shares.

Moving on to the balance sheet. Cash and cash equivalents were \$11.5 million at March 31, 2020, compared to \$11.8 million at December 31, 2019. Current assets were \$15.6 million compared to \$16.0 million and current liabilities were \$3.8 million compared to \$4.3 million.

We generated \$1.2 million in cash from operating activities for the three months ended March 31, 2020, compared to using \$1.2 million in cash for operating activities for the same period in 2019.

Internally, we track our operational cash earn versus burn on a monthly basis by calculating adjusted EBITDA and subtracting the cash we use for the development of internal use software and other capital expenses, both found on our statement of cash flows. Based on this earn/burn analysis, we earned \$0.2 million in cash for the first quarter 2020, compared to burning \$1.8 million for the first quarter 2019.

Cash used in investing activities was \$1.6 million for the three months ended March 31, 2020, mainly the result of \$1.5 million used for software developed for internal use.

As you can see from the results of the first quarter, we had a great quarter despite the Covid-19 headwinds we faced in March. Heading into this event, we were as strong as we have ever been. We've implemented cost containment strategies across all areas of the organization, including continued curtailment of company travel and partnering with suppliers, landlords and vendors for price concessions and payment deferrals during this interim period. We have leveraged certain relief under the CARES Act, including the deferral of the employer portion of FICA taxes, with 50% of that deferred balance due December 31, 2021 and the remainder due December 31, 2022. In addition, on April 3, 2020, due to the economic uncertainty of the pandemic and its impact on our business, we applied for a loan under the CARES Act. On May 5, 2020, we received a loan in the amount of \$2.2 million under the CARES Act. This loan may be forgiven partially or fully if the proceeds are used as we plan -- for covered payroll costs, rent and utility costs incurred during the eight-week period that commenced on the date of funding. As Derek stated earlier, we have not furloughed, laid off or reduced the compensation or benefits of any of our employees as a result of Covid-19, and we do not intend to. With \$11.5 million in cash heading into the second quarter, the additional \$2.2 million of capital accessed in May under the CARES Act, and prudent cost containment strategies implemented throughout the organization, we are extremely confident in our ability to navigate this period. As states start to lift stay-at-home orders and economic pressure begins to subside, our team and this business is well-positioned for accelerated growth.

With that, our operator will now open the line for Q&A.

Operator

Everyone, if you would like to ask a question, you will need to press star one on your telephone keypad. Again, that is star one on your telephone keypad. If you would like to withdraw your question, press the pound key. Please stand by while we compile the Q and A roster.

As a reminder to ask a question, you will need to press star one on your telephone keypad.

There are no questions at this time.

Speakers, you may continue.

Derek Dubner

Great, thank you very much. Just a thank you to all for attending our call today. I hope you can feel the sentiment in the room and yes, we are in the room, and we are taking precautions. Dan and myself, and Camilo. We are very, very proud of the performance of our business. We have always had extraordinary confidence in this model. This model is proving itself out, once again, as is the execution by this team. Very thrilled, again I want to thank the red violet team members for a fantastic quarter, for fighting the headwinds that all businesses face and we look forward to updating you again at our next quarterly conference call. Thank you, be safe and have a good day.

Operator

This concludes today's conference call. Thank you all for participating.