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): November 7, 2022

RED VIOLET, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**001-38407**	**82-2408531**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**(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 November 7, 2022, Red Violet, Inc., a Delaware corporation (the “Company”), issued a press release announcing its financial results for the third quarter ended September 30, 2022 (the “Earnings Release”). A copy of the Earnings Release is furnished herewith as Exhibit 99.1.

Also on November 7, 2022, following the issuance of the Earnings Release, the Company conducted a conference call to discuss the reported financial results for the third quarter ended September 30, 2022. The Company had issued a press release on October 20, 2022 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 November 7, 2022

99.2 November 7, 2022 conference call transcript

104 Cover page Interactive Data File (embedded within the inline XBRL file).

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: November 9, 2022

By: /s/ Derek Dubner

Derek Dubner

Chief Executive Officer (Principal Executive Officer)

Exhibit 99.1

red violet Announces Third Quarter 2022 Financial Results

Record Revenue of $15.0 Million Drives Record Earnings of $0.16 Per Share

BOCA RATON, Fla. – November 7, 2022 – Red Violet, Inc. (NASDAQ: RDVT), a leading analytics and information solutions provider, today announced financial results for the quarter ended September 30, 2022.

"We had a strong quarter, setting records for nearly every key financial metric," stated Derek Dubner, red violet's CEO. "Revenue increased 29% to a record $15.0 million, net income increased 80% to a record $2.3 million, earnings increased 78% to a record $0.16 per diluted share and adjusted EBITDA increased 43% to a record $5.2 million. Despite the challenging economic environment, we continue to see strong demand for our innovative identity solutions and pipeline expansion from larger enterprise and public sector prospects. As we continue to add talent to our sales, product and technology teams, we are focused on providing best-in-class, customer-centric solutions and driving strong revenue growth."

Third Quarter Financial Results

For the three months ended September 30, 2022 as compared to the three months ended September 30, 2021:

- Total revenue increased 29% to $15.0 million. Platform revenue increased 31% to $14.8 million. Services revenue decreased 29% to $0.2 million.
- Gross profit increased 36% to $10.3 million. Gross margin increased to 69% from 65%.
- Adjusted gross profit increased 35% to $12.0 million. Adjusted gross margin increased to 80% from 76%.
- Net income increased 80% to $2.3 million, which resulted in $0.16 per basic and diluted share.
- Adjusted EBITDA increased 43% to $5.2 million.
- Cash from operating activities decreased 9% to $3.1 million.
- Cash and cash equivalents were $31.3 million as of September 30, 2022.

Third Quarter and Recent Business Highlights

- Added 56 customers to IDI™ during the third quarter, ending the quarter with 6,873 customers.
- Added 8,790 users to FOREWARN® during the third quarter, ending the quarter with 110,051 users. Over 225 REALTOR® Associations are now contracted to use FOREWARN.
- Continue to enhance our go-to-market capabilities with the expansion of our sales team, including key new hires focused on several strategic areas within fraud and identity where we are seeing strong traction.
- To date, we have purchased a total of 50,000 shares of the Company's common stock at an average price of $17.52 per share pursuant to the Company's Stock Repurchase Program authorized by the board of directors on May 4, 2022.

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 EBITDA margin, adjusted gross profit and adjusted gross margin. Adjusted EBITDA is a financial measure equal to net income, the most directly comparable financial measure based on US GAAP, excluding interest (income) expense, net, income tax expense, depreciation and amortization, share-based compensation expense, gain on extinguishment of debt, litigation costs, and write-off of long-lived assets and others. We define adjusted EBITDA margin as adjusted EBITDA as a percentage of revenue. 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. Please click here to pre-register for the conference call and obtain your dial in number and passcode. 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, 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 build proprietary technologies and apply analytical capabilities to deliver identity intelligence. Our technology powers critical solutions, which empower organizations to operate with confidence. Our solutions enable the real-time identification and location of people, businesses, assets and their interrelationships. These solutions are used for purposes including risk mitigation, due diligence, fraud detection and prevention, regulatory compliance, and customer acquisition. Our intelligent platform, CORE™, is purpose-built for the enterprise, yet flexible enough for organizations of all sizes, bringing clarity to massive datasets by transforming data into intelligence. Our solutions are used today to enable frictionless commerce, to ensure safety, and to reduce fraud and the concomitant expense borne by society. 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 whether we can continue providing best-in-class, customer-centric solutions and driving strong revenue growth. 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, 2021 filed on March 9, 2022, 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)

	September 30, 2022	December 31, 2021
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 31,273	$ 34,258
Accounts receivable, net of allowance for doubtful accounts of $39 and $28 as of September 30, 2022 and December 31, 2021, respectively	6,473	3,736
Prepaid expenses and other current assets	849	599
Total current assets	38,595	38,593
Property and equipment, net	664	577
Intangible assets, net	30,831	28,181
Goodwill	5,227	5,227
Right-of-use assets	1,255	1,661
Other noncurrent assets	137	137
Total assets	$ 76,709	$ 74,376
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 1,596	$ 1,605
Accrued expenses and other current liabilities	562	395
Current portion of operating lease liabilities	674	617
Deferred revenue	539	841
Total current liabilities	3,371	3,458
Noncurrent operating lease liabilities	778	1,291
Deferred tax liabilities	405	198
Total liabilities	4,554	4,947
Shareholders' equity:		
Preferred stock—$0.001 par value, 10,000,000 shares authorized, and 0 shares issued and outstanding, as of September 30, 2022 and December 31, 2021	-	-
Common stock—$0.001 par value, 200,000,000 shares authorized, 13,874,406 and 13,488,540 shares issued, 13,873,406 and 13,488,540 shares outstanding, as of September 30, 2022 and December 31, 2021	14	13
Treasury stock, at cost, 1,000 and 0 shares as of September 30, 2022 and December 31, 2021	(18)	-
Additional paid-in capital	92,017	91,434
Accumulated deficit	(19,858)	(22,018)
Total shareholders' equity	72,155	69,429
Total liabilities and shareholders' equity	$ 76,709	$ 74,376

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	$ 15,026	$ 11,668	$ 40,249	$ 32,764
Costs and expenses[(1)]:				
Cost of revenue (exclusive of depreciation and amortization)	3,067	2,787	9,157	8,268
Sales and marketing expenses	2,623	2,154	7,836	6,724
General and administrative expenses	5,465	4,127	16,118	13,567
Depreciation and amortization	1,713	1,345	4,860	3,933
Total costs and expenses	12,868	10,413	37,971	32,492
Income from operations	2,158	1,255	2,278	272
Interest income (expense), net	125	1	126	(8)
Gain on extinguishment of debt	-	-	-	2,175
Income before income taxes	2,283	1,256	2,404	2,439
Income tax expense	25	-	244	-
Net income	$ 2,258	$ 1,256	$ 2,160	$ 2,439
Earnings per share:				
Basic	$ 0.16	$ 0.10	$ 0.16	$ 0.20
Diluted	$ 0.16	$ 0.09	$ 0.16	$ 0.19
Weighted average number of shares outstanding:				
Basic	13,748,587	12,741,723	13,690,309	12,408,152
Diluted	13,764,262	13,645,208	13,872,596	13,140,854

(1) Share-based compensation expense in each category:				
Sales and marketing expenses	$ 92	$ 103	$ 247	$ 417
General and administrative expenses	1,181	883	3,819	4,780
Total	$ 1,273	$ 986	$ 4,066	$ 5,197

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

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,160	$ 2,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,860	3,933
Share-based compensation expense	4,066	5,197
Write-off of long-lived assets	6	24
Provision for bad debts	96	67
Noncash lease expenses	406	371
Interest expense	-	11
Deferred income tax expense	207	-
Gain on extinguishment of debt	-	(2,175)
Changes in assets and liabilities:		
Accounts receivable	(2,833)	(906)
Prepaid expenses and other current assets	(250)	(69)
Other noncurrent assets	-	2
Accounts payable	(9)	(709)
Accrued expenses and other current liabilities	149	(700)
Deferred revenue	(302)	(80)
Operating lease liabilities	(456)	(408)
Net cash provided by operating activities	8,100	6,997
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(271)	(223)
Capitalized costs included in intangible assets	(6,139)	(3,549)
Net cash used in investing activities	(6,410)	(3,772)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Taxes paid related to net share settlement of vesting of restricted stock units	(4,310)	(2,785)
Repurchases of common stock	(365)	-
Net cash used in financing activities	(4,675)	(2,785)
Net (decrease) increase in cash and cash equivalents	$ (2,985)	$ 440
Cash and cash equivalents at beginning of period	34,258	12,957
Cash and cash equivalents at end of period	$ 31,273	$ 13,397
SUPPLEMENTAL DISCLOSURE INFORMATION		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ 37	$ -
Share-based compensation capitalized in intangible assets	$ 1,193	$ 1,023
Retirement of treasury stock	$ 4,675	$ 2,785

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 EBITDA margin, adjusted gross profit and adjusted gross margin. Adjusted EBITDA is a financial measure equal to net income, the most directly comparable financial measure based on GAAP, excluding interest (income) expense, net, income tax expense, depreciation and amortization, share-based compensation expense, gain on extinguishment of debt, litigation costs, and write-off of long-lived assets and others, as noted in the tables below. We define adjusted EBITDA margin as adjusted EBITDA as a percentage of revenue. 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 September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net income	$ 2,258	$ 1,256	$ 2,160	$ 2,439
Interest (income) expense, net	(125)	(1)	(126)	8
Income tax expense	25	-	244	-
Depreciation and amortization	1,713	1,345	4,860	3,933
Share-based compensation expense	1,273	986	4,066	5,197
Gain on extinguishment of debt	-	-	-	(2,175)
Litigation costs	37	-	128	126
Write-off of long-lived assets and others	4	34	7	95
Adjusted EBITDA	$ 5,185	$ 3,620	$ 11,339	$ 9,623
Revenue	$ 15,026	$ 11,668	$ 40,249	$ 32,764
Net income margin	15%	11%	5%	7%
Adjusted EBITDA margin	35%	31%	28%	29%

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

(In thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Revenue	$ 15,026	$ 11,668	$ 40,249	$ 32,764
Cost of revenue (exclusive of depreciation and amortization)	(3,067)	(2,787)	(9,157)	(8,268)
Depreciation and amortization of intangible assets	(1,659)	(1,288)	(4,682)	(3,763)
Gross profit	10,300	7,593	26,410	20,733
Depreciation and amortization of intangible assets	1,659	1,288	4,682	3,763
Adjusted gross profit	$ 11,959	$ 8,881	$ 31,092	$ 24,496
Gross margin	69%	65%	66%	63%
Adjusted gross margin	80%	76%	77%	75%

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 EBITDA margin, 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 EBITDA margin, 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. Adjusted EBITDA margin is calculated as adjusted EBITDA as a percentage of revenue. Our adjusted gross profit is a measure used by management in evaluating the business' 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 EBITDA margin, 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 EBITDA margin, 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.

	(Unaudited)							
(Dollars in thousands)	**Q4'20**	**Q1'21**	**Q2'21**	**Q3'21**	**Q4'21**	**Q1'22**	**Q2'22**	**Q3'22**
Customer metrics								
IDI - billable customers(1)	5,726	5,902	6,141	6,314	6,548	6,592	6,817	6,873
FOREWARN - users(2)	48,377	58,831	67,578	74,377	82,419	91,490	101,261	110,051
Revenue metrics								
Contractual revenue %(3)	77 %	80 %	81 %	80 %	79 %	77 %	80 %	68 %
Revenue attrition %(4)	11 %	7 %	6 %	5 %	4 %	3 %	5 %	6 %
Revenue from new customers(5)	$ 877	$ 967	$ 929	$ 876	$ 920	$ 1,014	$ 805	$ 2,016
Base revenue from existing customers(6)	$ 6,678	$ 7,351	$ 8,354	$ 9,187	$ 9,114	$ 9,721	$ 10,164	$ 10,839
Growth revenue from existing customers(7)	$ 1,408	$ 1,899	$ 1,596	$ 1,605	$ 1,224	$ 1,994	$ 1,525	$ 2,171
Platform financial metrics								
Platform revenue(8)	$ 8,603	$ 9,813	$ 10,588	$ 11,296	$ 10,787	$ 12,217	$ 12,185	$ 14,763
Cost of revenue (exclusive of depreciation and amortization)	$ 2,448	$ 2,488	$ 2,529	$ 2,525	$ 2,606	$ 2,822	$ 2,709	$ 2,895
Adjusted gross margin	72 %	75 %	76 %	78 %	76 %	77 %	78 %	80 %
Services financial metrics								
Services revenue(9)	$ 360	$ 404	$ 291	$ 372	$ 471	$ 512	$ 309	$ 263
Cost of revenue (exclusive of depreciation and amortization)	$ 246	$ 273	$ 191	$ 262	$ 320	$ 348	$ 211	$ 172
Adjusted gross margin	32 %	32 %	34 %	30 %	32 %	32 %	32 %	35 %
Other metrics								
Employees - sales and marketing	53	56	57	49	54	59	57	64
Employees - support	9	9	9	10	10	10	9	10
Employees - infrastructure	14	15	16	16	18	23	25	25
Employees - engineering	32	31	33	35	37	50	52	52
Employees - administration	18	16	19	20	22	26	27	26

(1) We define a billable customer of IDI as a single entity that generated revenue in the last three months 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) Revenue attrition is defined as the revenue lost as a result of customer attrition, net of reinstated customer revenue, and it excludes expansion 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. 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. Prior to Q1’22, FOREWARN revenue was excluded from our revenue attrition calculation.

(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.

(8) Platform revenue consists of both contractual and transactional revenue generated from our technology platform, CORE. It includes all revenue generated through our IDI and FOREWARN solutions. The cost of revenue, which consists primarily of data acquisition costs, remains relatively fixed irrespective of revenue generation.

(9) Services revenue consists of transactional revenue generated from our idiVERIFIED service. The cost of revenue, which consists primarily of third-party servicer costs, is variable.

Investor Relations Contact:
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Red Violet, Inc. (NASDAQ: RDVT)

Third Quarter 2022 Earnings Results Conference Call

Company Participants:

Camilo Ramirez, Vice President, 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 third quarter 2022 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 phone.

As a reminder this call is being recorded.

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

Camilo Ramirez:

Good afternoon and welcome. Thank you for joining us today to discuss our third quarter 2022 financial results. With me today is Derek Dubner, our Chairman and 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, adjusted EBITDA, and adjusted EBITDA margin. Reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measure are provided in the 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 Chairman and Chief Executive Officer, Derek Dubner.

Derek Dubner

Thank you, Camilo. Good afternoon to all and thank you for joining us today to discuss the results of our third quarter 2022. We are very pleased to report yet another strong quarter, setting records in nearly every key financial metric, driven by continued strong demand for our innovative identity and fraud solutions. We are delivering on a growing sales pipeline, winning head-to-head tests against the competition, and have re-accelerated our investment in our sales and product teams to capitalize on opportunities and to drive our robust product roadmap. With that, let us dive into the quarter.

For the quarter, total revenue was a record $15.0 million, a 29% increase over prior year. We produced a record $12.0 million in adjusted gross profit, resulting in a record margin of 80% for the third quarter. Adjusted EBITDA for the quarter was a record $5.2 million, producing a record 35% margin. Our net income was a record $2.3 million for the third quarter, an 80% increase over prior year. This resulted in record earnings of $0.16 per diluted share.

IDI added over 50 customers sequentially from the second quarter, ending the third quarter at 6,873 customers and FOREWARN added over 8,700 users sequentially from the second quarter, ending the third quarter at 110,051 users. Over 225 Realtor® Associations are now contracted to use FOREWARN.

During last quarter's earnings call, we noted that we had multiple pipeline opportunities in play that we thought would perhaps land in Q2, were delayed to due to ordinary course budgeting and procurement processes, and that we expected to land them in Q3 and Q4. As expected, we landed a few of those opportunities here in the third quarter. We are very proud of these wins as they are a result of prospects testing our solutions and capabilities against the much larger competition, and we won the business.

We also provided insight last quarter into some softness that we experienced in our real estate marketing segment due to the spike in mortgage rates and volatility in the broader housing market. In the third quarter, we still experienced softness within this segment with revenue remaining relatively flat compared to prior year. To be clear, the segment we are referring to is only a portion of our real estate revenue and is not part of our fraud solutions and it is not FOREWARN, both of which saw strong growth in the third quarter.

As it has been the case over several quarters now, revenue from our collections vertical was flat. However, we continue to see consumer financial health deteriorating around the edges, especially at below prime status, where they are feeling the most pressure due to sunsetting government subsidies, depleting savings, increasing credit card balances, significantly higher interest rates, and a changing labor market. We remain steadfast in our expectation that collections activity will pick up in the not-too-distant future and we will start to see revenue growth from our collections vertical.

Yet despite collections and real estate marketing being relatively flat for the quarter, we grew total revenue 29% over the same period last year. This is a result of strong revenue growth across all other areas of the business within our fraud and identity solutions.

As the current economic environment is dynamic, we have remained flexible and willing to pivot quickly as an organization to ensure that we are making and executing upon decisions that are in the best interests of the business long-term. As of the end of the second quarter, as we had already added 29 members to the team year-to-date, we determined that it would be prudent to downshift our onboarding and focus primarily on mission-critical positions in strategic areas of the business. Given an evaluation of our ongoing performance, including several larger customer wins and feedback from large prospects and pilot project participants, we re-accelerated our hiring plan a bit in the third quarter with an eye towards our go-to-market capabilities. To that end, we expanded our sales team with seven key new hires focused on strategic areas within fraud and identity where we are seeing solid traction.

All in all, this was a terrific quarter. Our record results once again demonstrate the operational leverage of our business. We continue to generate healthy cash flow as we continue to invest in the business for growth. From product development to infrastructure to sales and across the organization, we have the most talented team in the industry. Combine that with our industry leading, cloud-native identity intelligence platform, differentiated data assets, and innovative solutions, and we are well positioned for the future.

With that, I will now turn it over to Dan to provide some additional color and to discuss the financials.

Dan MacLachlan

Thank you, Derek, and good afternoon. It was a great quarter for the company, hitting records in nearly every key financial metric. Despite the challenging economic environment, our team executed extremely well. We continue to see increasing demand for our solutions, driving strong growth in the third quarter leading to records in revenue, adjusted gross profit, adjusted EBITDA, net income and EPS. This was all accomplished while continuing to tactically invest in expanding the capabilities, depth and efficiency of our product development, sales, and go-to-market teams. Our higher-tier opportunity pipeline continues to expand, and you are seeing the conversion of those opportunities to wins reflected in our third quarter results. With that, let's dive in.

For clarity, all the comparisons I will discuss today will be against the third quarter of 2021, unless noted otherwise.

Total revenue was a record $15.0 million, a 29% increase over prior year. Platform revenue increased 31% to $14.8 million. Services revenue decreased 29% to $0.2 million. We produced a record $12.0 million in adjusted gross profit, resulting in a record margin of 80% for the third quarter, up 4-percentage points. Adjusted EBITDA for the quarter was a record $5.2 million, up 43% from prior year. Our adjusted EBITDA margin for the quarter was a record 35% compared to 31% in prior year.

Continuing through the details of our P&L, as mentioned, revenue was $15.0 million for the third quarter, consisting of revenue from new customers of $2.0 million, base revenue from existing customers of $10.8 million and growth revenue from existing customers of $2.2 million. Our IDI billable customer base grew by 56 customers sequentially from the second quarter, ending the third quarter at 6,873 customers. FOREWARN added 8,790 users during the quarter, ending the third quarter at 110,051 users. Over 225 Realtor® Associations are now contracted to use FOREWARN.

Our revenue attrition percentage was 6% in the third quarter compared to 5% in prior year. We expect our revenue attrition percentage to trend between 5% and 10% for the foreseeable future. Our contractual revenue was 68% for the quarter compared to 80% in prior year. This was the result of several larger transactional opportunity wins from new and existing customers. We competed head-to-head against our larger competitors and won the business. While these initial opportunities were transactional in nature, as is common in our industry when you are competing to displace incumbents, we believe these larger wins will ultimately develop into contractual commitments. By way of example, one of these new transactional wins led to a contractual commitment of $450 thousand over the next three years.

Moving on from our revenue metrics and down the P&L, our cost of revenue (exclusive of depreciation and amortization) increased $0.3 million or 10% to $3.1 million. This $0.3 million increase was a result of an increase in data acquisition costs and third-party infrastructure fees. Adjusted gross profit increased 35% to a record $12.0 million, producing a record adjusted gross margin of 80%, a 4-percentage point increase over third quarter 2021.

Sales and marketing expenses increased $0.4 million or 22% to $2.6 million. The increase was due primarily to an increase in salaries and benefits and sales commissions. The $2.6 million of sales and marketing expense for the quarter consisted primarily of $1.6 million in employee salaries and benefits and $0.6 million in sales commissions.

General and administrative expenses increased $1.4 million or 32% to $5.5 million. This increase was primarily the result of a $0.7 million increase in employee salaries and benefits and a $0.3 million increase in non-cash share-based compensation expense. The $5.5 million in general and administrative expenses for the quarter consisted primarily of $2.7 million of employee salaries and benefits, $1.2 million of non-cash share-based compensation expense, and $1.0 million in accounting, IT and other professional fees.

We discussed last quarter that we would be deliberate and tactical in our hiring plan for the remainder of 2022. During the third quarter, we added an additional seven members to our sales team as we continue to see increasing volumes and strong demand for our solutions. Year to date, we have added a total of 36 new team members across the organization. We have expanded our product development and infrastructure teams, focusing on condensing the time it takes to deliver our product roadmap to market. We have expanded our sales and go-to-marketing capabilities, focusing on several key strategic areas in which we are seeing strong traction, including identity, property solutions, background screening support, financial services and the public sector. We will continue to lean in and invest, where appropriate, to drive strong, profitable growth.

Now back to the P&L. Depreciation and amortization increased $0.4 million or 27% to $1.7 million for the quarter. This increase was primarily the result of the amortization of internally developed software.

Our net income was $2.3 million for the third quarter, an 80% increase over prior year.

We reported earnings of 16 cents per basic and diluted share based on a weighted average share count of 13.7 million shares basic and 13.8 million shares diluted.

Moving on to the balance sheet. Cash and cash equivalents were $31.3 million at September 30, 2022, compared to $34.3 million at December 31, 2021. Current assets were $38.6 million at both September 30, 2022 and December 31, 2021. Current liabilities were $3.4 million compared to $3.5 million.

We generated $2.9 million in free cash flow in the third quarter, compared to generating $2.4 million for the same period 2021. We calculate our free cash flow by using adjusted EBITDA and subtracting the cash we use for the capital expenses such as property, equipment and capitalized intangible asset costs found on our statement of cash flows.

We generated $8.1 million in cash from operating activities for the nine months ended September 30, 2022, compared to generating $7.0 million in cash from operating activities for the same period in 2021.

Cash used in investing activities was $6.4 million for the nine months ended September 30, 2022, mainly the result of $6.1 million used for software developed for internal use. Cash used in investing activities for the same period in 2021 was $3.8 million.

Cash used in financing activities was $4.7 million for the nine months ended September 30, 2022, mainly the result from the taxes paid for the net share settlement of 200,033 shares from restricted stock units. These shares were withheld in treasury and retired prior to the end of the third quarter. Cash used in financing activities during the same period in 2021 was $2.8 million.

During the third quarter, we purchased 13,969 shares of our common stock under our stock repurchase program at an average price of $17.73 per share. During the fourth quarter to date, we purchased an additional 29,000 shares at an average price of $17.04 per share. Since inception in May of this year, we have purchased a total of 50,000 shares of our common stock at an average price of $17.52 per share pursuant to our repurchase program. We will continue to monitor prevailing market conditions and other opportunities that we have for the use or investment of our cash balances and, as applicable, strategically acquire additional shares in accordance with our repurchase program.

In closing, we are extremely pleased with our third quarter results. We continue to see strong demand for our solutions. Our opportunity pipeline is expanding. We are competing for prospects at a higher-tier and winning. We look forward to closing out the year strong.

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

Operator

Thank you. At this time, we will conduct the question and answer session. To ask a question, you will need to press *11 on your telephone and wait for your name to be announced. Please stand by while we compile the Q&A roster.

There were no questions during the Q&A.

At this time, I would like to turn it back to Derek Dubner for any further comments.

Derek Dubner

Thanks again to everyone who joined us today. We delivered a strong third quarter in a challenging economic environment. We are excited about our growing pipeline and deep product roadmap. We remain focused on the execution of our long-term plan, driving top-line growth and healthy cash flow, enabling us to invest in our business. We believe we are very well positioned for the remainder of the year and 2023. Goodbye.