

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2022

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: 001-38407

RED VIOLET, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

82-2408531
(I.R.S. Employer
Identification No.)

2650 North Military Trail, Suite 300,
Boca Raton, Florida 33431

(Address of principal executive offices) (Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

On June 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value (based on the closing per share sales price of its common stock on that date) of the voting stock held by non-affiliates of the registrant was \$205.5 million.

The number of shares outstanding of the registrant's common stock, as of March 3, 2023, was 13,958,504.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2022 are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

RED VIOLET, INC.
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PART I

Item 1. Business.

This business description should be read in conjunction with our audited consolidated financial statements and accompanying notes thereto appearing elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Form 10-K”), which are incorporated herein by this reference.

Company Overview

Red Violet, Inc. (“we,” “us,” “our,” “red violet,” or the “Company”), a Delaware corporation, is dedicated to making the world a safer place and reducing the cost of doing business. 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. We drive workflow efficiency and enable organizations to make better data-driven decisions.

Organizations are challenged by the structure, volume and disparity of data. Our platform and applications transform the way our customers interact with information, presenting connections and relevance of information otherwise unattainable, which drives actionable insights and better outcomes. Leveraging cloud-native proprietary technology and applying machine learning and advanced analytical capabilities, CORE provides essential solutions to public and private sector organizations through intuitive, easy-to-use analytical interfaces. With massive data assets consisting of public record, proprietary and publicly-available data, our differentiated information and innovative platform and solutions deliver identity intelligence – entities, relationships, affiliations, interactions, and events. Our solutions are used today to enable frictionless commerce, to ensure safety, and to reduce fraud and the concomitant expense borne by society.

While our platform powers many diverse solutions for our customers, we presently market our solutions primarily through two brands, IDI™ and FOREWARN®. IDI is a leading-edge, analytics and information solutions provider delivering actionable intelligence to the risk management industry in support of use cases such as the verification and authentication of consumer identities, due diligence, prevention of fraud and abuse, legislative compliance, and debt recovery. idiCORE™ is IDI's flagship product. idiCORE is a next-generation, investigative solution used to address a variety of organizational challenges including due diligence, risk mitigation, identity authentication and regulatory compliance, by financial services companies, insurance companies, healthcare companies, law enforcement and government, collections, law firms, retail, telecommunication companies, corporate security and investigative firms. FOREWARN is an app-based solution currently tailored for the real estate industry, providing instant knowledge prior to face-to-face engagement with a consumer, helping professionals identify and mitigate risk. As of December 31, 2022 and 2021, IDI had 7,021 and 6,548 billable customers and FOREWARN had 116,960 and 82,419 users, respectively. We define a billable customer of IDI as a single entity that generated revenue during 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, the Company counts the entire organization as a discrete customer. 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.

We generate substantially all of our revenue from licensing our solutions. Customers access our solutions through a hosted environment using an online interface, batch processing, API and custom integrations. We recognize revenue from licensing fees (a) on a transactional basis determined by the customer’s usage, (b) via a monthly fee or (c) from a combination of both. Revenue pursuant to pricing contracts containing a monthly fee is recognized ratably over the contract period. Pricing contracts are generally annual contracts or longer, with auto renewal. For the years ended December 31, 2022 and 2021, 75% and 80% of total revenue was attributable to customers with pricing contracts, respectively, versus 25% and 20% attributable to transactional customers, respectively.

We endeavor to understand our customers' needs at the moment of first engagement. We continuously engage with our customers and evaluate their usage of our solutions throughout their life cycle, to maximize utilization of our solutions and, hence, their productivity. Our go-to-market strategy leverages (a) an inside sales team that cultivates relationships, and ultimately closes business, with their end-user markets, (b) a strategic sales team that provides a more personal, face-to-face approach for major accounts within certain industries, and (c) distributors, resellers, and strategic partners that have a significant foothold in many of the industries that we have not historically served, as well as to further penetrate those industries that we do serve. We employ a "land and expand" approach. Our sales model generally begins with a free trial followed by an initial purchase on a transactional basis or minimum-committed monthly spend. As organizations derive benefits from our solutions, we are able to expand within organizations as additional use cases are presented across departments, divisions and geographic locations and customers become increasingly reliant on our solutions in their daily workflow.

For the years ended December 31, 2022 and 2021, we had revenue of \$53.3 million and \$44.0 million, net income of \$0.6 million and \$0.7 million, and adjusted EBITDA of \$12.9 million and \$10.9 million, respectively. Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable financial measure based on accounting principles generally accepted in the United States ("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, as noted in the tables included in "Use and Reconciliation of Non-GAAP Financial Measures" of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Markets

The target market for our solutions today consists of public and private sector organizations where cloud-driven identity intelligence is primary to their daily workflow.

The data and analytics sector continues to grow at an accelerated pace due to the proliferation of data generated over the past two decades from both traditional and emerging sources, including e-commerce, mobile and social media. International Data Corporation, a global provider of market intelligence and advisory services, estimates that worldwide revenue for data and business analytics services was \$215.7 billion in the year 2021, and a compound annual growth rate ("CAGR") from 2021 through 2025 will be 12.8%. Fortune Business Insights™ projected the global big data analytics market to rise to \$655.5 billion by 2029, exhibiting a CAGR of 13.4% during the forecast period from 2022 through 2029. Continued, rapid innovation and adoption of new technologies presents enormous challenges for organizations of all types to sort through this sea of data to glean actionable intelligence and address their mission-critical functions. These challenges serve as key drivers of the sector's growth. Our industry-agnostic platform, solutions, and analytical capabilities are designed to solve the myriad of complex problems that organizations face on a daily basis.

Risk and fraud analytics has become increasingly important not only in the banking and financial services sectors but across multiple other industries and use cases. According to the market research company MarketsAndMarkets, the risk analytics market is projected to grow to \$70.5 billion by 2027, representing CAGR of 12.4% from 2022 through 2027, with North America expected to account for the largest market size in the risk analytics market. Risk and fraud analytics and the information derived therefrom is now the primary service product for risk management associated with key purchasers such as banking and financial services companies, insurance companies, healthcare companies, law enforcement and government, collection agencies, law firms, retail, telecommunications companies and investigative firms. Primary use cases include, but are not limited to, obtaining information on consumers, businesses and assets (and their interrelationships) to facilitate the location of individuals and assets, identity verification, legislative compliance and to support criminal, legal, financial, insurance, and corporate investigations, due diligence and the assessment and mitigation of counterparty risk.

Key Challenges Facing Our Customers

We believe our solutions address the challenges that the industry faces today, which include:

Actionable Insights Through a Single, Cloud-Native Platform—As the velocity and volume of data continues to grow exponentially, organizations have become overwhelmed with data and their inability to glean actionable insights from such data to derive successful decisions in real-time. Customers demand full-suite, turn-key solutions that are agile, flexible, and available on-demand in order to gain the speed, scale and insight necessary to drive decisioning. As the breadth and depth of data increases, organizations will need to deploy new technologies that enable both the ingestion of data at massive scale in real-time, irrespective of structure or form, and the analytics applications necessary to function across multiple channels. The accelerating digitization of human interactions, and the corresponding generation of the data resulting therefrom, is driving demand for data capture, management and analysis software. As a result, customers are looking for flexible and efficient solutions to unify disparate and often siloed sets of not only transactional data but also demographic, ethnographic and behavioral data as well, in order to provide insights that are truly actionable.

Cost and Performance Pressures—As customers face constant cost pressures, they are increasingly dependent upon extracting greater value from information solutions. Whether it is identity verification, managing risk, or regulatory compliance, customers are increasingly more sophisticated, requiring enhanced performance that provides fast, accurate, and cost-effective solutions to satisfy their business objectives. Improving performance can mean delivering the right information at the right time at greater scale, or providing the most intuitive information as rapidly as possible to capitalize on opportunities or reduce risk. Superior analytics combined with unified data assets delivers competitive advantages to our customers as they cope with these pressures.

Delivering Solutions for Complex Problems Using Scalable Analytics—The larger and more complex a data set, the more difficult it is to derive and provide sustained levels of performance and insight. The highly-fragmented nature of data across multiple mediums and often siloed within organizations, the historical proliferation of data augmented by the recent acceleration of the digital transformation, and lack of robust technology inhibits the ability to create a unified data asset. There is an inherent need for information solutions that allow organizations to leverage unified data assets for actionable intelligence in support of their operational workflows and in a more efficient manner.

Our Competitive Strengths

We believe our leading-edge technology platform, massive database, and dynamic and intuitive solutions deliver superior capabilities to our customers. Our solutions enable our customers to make more informed inquiries regarding their challenges and better decisions to solve their most complex problems. We believe the following competitive strengths will continue to deliver an unrivaled value proposition that further drives our differentiation:

- **Transformative and Innovative Cloud-Native Technology Platform**—Through the power of our platform, CORE, we offer a comprehensive suite of information solutions. Our cloud-native, data and industry agnostic platform enables us to assimilate, structure, and unify billions of disparate records to create comprehensive views that provide identity intelligence, and to present these insights in real-time via analytical interfaces. We believe our platform’s speed, power, extensibility and scalability are key differentiators in the marketplace.
- **Massive Unified Data Asset**—Data is the lifeblood of our technology platform, and of modern society. We leverage our CORE platform to build massive proprietary datasets and apply analytics in real-time to provide actionable insights. Our data is compiled from a myriad of online and offline sources, both structured and unstructured, including public record, publicly-available, proprietary, and self-reported data. Public record data includes personal information, as well as property, identity, bankruptcy, lien, judgment, automotive, phone and other information aggregated from companies specializing in data aggregation, public record databases, and publicly-available sources. Proprietary data is internally generated data unified by proprietary algorithms and analytic processes. Through next-generation technology and proprietary algorithms, we efficiently ingest these datasets, structure them into normalized form, and unify the data to resolve unique identities so as to create an actionable, real-time view of the information for various use cases, delivering greater intelligence to our customers and enhancing their decision-making capabilities across all markets and industries.

Our Platform and Solutions

Leveraging cloud-native proprietary technology and applying machine learning and advanced analytical capabilities, CORE provides essential solutions to public and private sector organizations through intuitive, easy-to-use analytical interfaces. With massive data assets consisting of public-record, proprietary and publicly-available data, our differentiated information and innovative platform and solutions deliver intelligence relating to all things identity – entities, relationships, affiliations, interactions, and events. Our solutions are used today to enable frictionless commerce, to ensure safety, and to reduce fraud and the concomitant expense borne by society.

Our Sales, Distribution and Marketing

Inside Sales—Our inside sales team cultivates relationships, and ultimately closes business, with their end-user markets. These professionals are relationship-based sellers with experience in identifying customers’ needs and clearly explaining and defining products that provide solutions to those needs.

Strategic Sales—While the majority of our direct sales efforts are supported through professional inside sales staff, major accounts within certain industries require a more personal, face-to-face strategic sales approach. We continue to expand this team to meet the demand of the markets.

Distributors, Resellers, and Strategic Partners—In conjunction with direct-to-customer sales efforts, we engage value-added distributors, resellers, and strategic partners that have a significant foothold in many of the industries that we have not historically served, as well as to further penetrate those industries that we do serve. This allows us to rapidly penetrate these markets while also significantly reducing overhead associated with direct sales and support efforts.

Marketing—We have implemented several methods to market our products, including participation in trade shows and seminars, advertising, public relations, distribution of sales literature and product specifications and ongoing communication with prospective customers, distributors, resellers, strategic partners and our installed base of current customers.

Our Strategy

We are committed to developing innovative technology and using our analytical capabilities to deliver solutions that transform the way organizations interact with information. We are advancing our business through the following strategic approach:

- **Transform Data Into Intelligence**—Our massive, unified data asset, integrated with our leading technology platform and solutions, delivers actionable intelligence to organizations across diverse industries. As the digital transformation accelerates, the data generated therefrom increases rapidly. Derived semantic insight increases exponentially with each new data asset, creating compounded additional value that can be used by supervised and unsupervised machine learning algorithms. As we identify, assimilate and unify these new data assets, our solutions expand in applicability to larger-sized customers as well as additional industries and uses cases within.
- **Widen Our Technology Lead**—Unlike legacy technologies, our platform was built in the cloud from the ground up. Due to its cloud-native construct, CORE demonstrates increased speed and scalability as compared to legacy constructs. As competitors invest millions of dollars transitioning platforms from dated infrastructures to primarily hybrid-cloud environments, we are advancing and expanding our cloud-native technology and functionality to meet customer need, as customers increasingly rely on the speed, reliability, security, scalability and efficiencies that only the cloud delivers. We will continue to invest in our technology and people to widen our lead over competitive technologies.
- **Enhance Functionality and Develop New Products**—We operate with a relentless focus on innovation and the customer experience. Customers rely on our solutions to solve complex problems, to make better data-driven decisions, and to produce greater efficiencies in their workflow. We are devoted to enhancing the functionality of our current solutions and to developing new products, to enable more intelligent interaction with information and to become further engrained in the daily workflows of our customers. As we introduce greater functionality and additional products, it will serve to expand the applications of our solutions, and increase the opportunities whereby our customers can solve for existing and evolving problems generated by disparate and siloed data assets.

Our Competition

Competition in the data and analytics sector centers on innovation, product stability, pricing and customer service. The market for our products and services is highly competitive and is subject to constant change. We compete on the basis of innovative technology, differentiated solutions, analytical capabilities, integration with our customers' technology, customer relationships, service stability, and price. We believe we are well-positioned to effectively compete on all fronts.

Our competitors vary widely in size and nature of the products and services they offer. There are a large number of competitors who offer products and services in specialized areas, such as fraud prevention, risk management and decisioning solutions. We believe our innovative technology, analytical capabilities, robust and unified database, and the intelligent design of our cloud-native infrastructure will allow us to differentiate ourselves from our competition in flexibility, capability, service and price.

Some of our competitors have substantially greater financial, technical, sales and marketing resources, better name recognition and a larger customer base. Even if we introduce advanced products that meet evolving customer requirements in a timely manner, there can be no assurance that our new products will gain market acceptance.

Certain companies in the data and analytics sector have expanded their product lines or technologies in recent years as a result of acquisitions. Further, more companies have developed products which conform to existing and emerging industry standards and have sought to compete on the basis of price. We anticipate increased competition from large data and analytics vendors. Increased competition in the data and analytics sector could result in significant price competition, reduced profit margins or loss of market share, any of which could have a material adverse effect on our business, operating results and financial condition. There can be no assurance that we will be able to compete successfully in the future with current or new competitors.

Concentration of Customers

We have established relationships with a number of customers, many of whom could unilaterally terminate their relationship with us or materially reduce the amount of business they conduct with us at any time. Market competition, customer requirements, customer financial condition and customer consolidation through mergers or acquisitions also could adversely affect our ability to continue or expand these relationships. There is no guarantee that we will be able to retain or renew existing agreements, maintain relationships with any of our customers on acceptable terms or at all or collect amounts owed to us from insolvent customers. The loss of one or more of our major customers could adversely affect our business, financial condition and results of operations.

During the years ended December 31, 2022 and 2021, no individual customer accounted for more than 10% of total revenue.

As of December 31, 2022, one individual customer accounted for 11% of our accounts receivable, net. As of December 31, 2021, no individual customer accounted for more than 10% of our accounts receivable, net.

Concentration of Suppliers

Our products and services depend extensively upon continued access to and receipt of data from external sources, including data received from the major credit bureaus, including our largest data supplier. Our other data suppliers include strategic partners, as well as various government and public record databases. Our largest data supplier, with whom we have expanded our relationship while securing what we believe to be favorable business terms over the years, accounted for 49% of our total data acquisition costs for the years ended December 31, 2022 and 2021. The amended and renewed term of the agreement with this supplier ends June 30, 2026. We may elect to extend the term for an additional twelve months upon written notice to this supplier at least 30 days prior to the end of the amended and renewed term. During the term of the agreement, either party has the right to terminate the agreement: (i) in the event of the other party's failure to cure a material breach, and (ii) in the event of the other party's insolvency. In addition, this supplier may terminate this agreement by providing not less than 12 months' advance written notice to us and we may terminate this agreement by providing not less than 24 months' advance written notice to this supplier. As of December 31, 2022, the remaining minimum purchase commitments through the end of the amended and renewed term is \$18.6 million. If we are unable to maintain our relationship with our largest data supplier, our ability to provide products and services could be negatively impacted, as we would need to secure comparable data on similar terms, which would require significant time, expense, and resources, and may in the short-term adversely affect our reputation, business, financial condition and results of operations and, if we are unable to establish a similar relationship with other data suppliers over time, could have a long-term material impact on our business and financial condition.

Our Intellectual Property

We avail ourselves of applicable trade secret and unfair competition laws to protect our proprietary technology, trademark law to protect our trademarks and domain names, and copyright laws to protect our content relating to, among other things, websites and marketing materials. Our intellectual property rights are embodied in confidential and proprietary technology and data, trademarked brands relating to our business units, products, services, and solutions, original content on our materials such as websites and marketing materials, and domain names. With respect to our trademarks, we maintain an extensive portfolio of perpetual common law and federally-registered trademark rights across several brands. We have also sought protection and registration of certain brands and trademarks internationally, such as in Europe and Canada. At present, we do not hold any issued patents.

We use data acquired through licensing rights from approximately 20 providers. The loss of any one of these providers could have an immediate near-term impact on our financial position, results of operations, and liquidity. Also see "Concentration of Suppliers" above.

Regulatory Matters

Our business is subject to various federal, state, and local laws, rules, and regulations, including, without limitation, the Gramm-Leach-Bliley Act (15 U.S.C. §§ 6801- 6809) (the "GLBA"), the Driver's Privacy Protection Act (18 U.S.C. §§ 2721- 2725) (the "DPPA") and the Federal Trade Commission Act (the "FTC Act"). A change in any one of a number of the laws, rules, or regulations applicable to our business or the enactment of new or amended legislation or industry regulations pertaining to consumer or private sector privacy issues could have a material adverse impact on information services. Legislation or industry regulations regarding consumer or private sector privacy issues could place restrictions upon the collection, sharing and use of information that is currently legally available, which could materially increase our cost of collecting and maintaining some data. These types of legislation or industry regulations could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our customers' requirements and our profitability and cash flow targets.

Seasonality

Our results are subject to seasonal fluctuation. Historically, certain products experience seasonal pressure during the fourth quarter.

Management Team

Our management team has a track record of strong performance and significant expertise in the markets we serve. We have built the leading companies in our industry, creating significant shareholder value. We continue to attract and retain experienced management talent for our business. Our team has deep knowledge of the data and analytics sector and expertise across the various industries that we serve. Our team has overseen the expansion of our proprietary technology platform while managing ongoing initiatives, including the transition from a development-focused company to a sales-driven company. As a result, we are well positioned to continue to successfully drive growth organically.

Our Employees

We employ a total of 186 full-time employees and one part-time employee as of December 31, 2022. None of our employees are represented by a labor organization, and none are party to any collective bargaining agreement. We have not experienced any work stoppages and consider our relations with our employees to be good. Competition in the recruiting of personnel in the data and analytics sector is intense. We believe that our future success will depend in part on our continued ability to hire, motivate and retain qualified sales and marketing, executive and administrative and technical personnel. To date, we have not experienced significant difficulties in attracting or retaining qualified employees.

Corporate Information

On March 26, 2018, Cogint, Inc. (“cogint”) (now known as Fluent, Inc.) spun off its risk management business by way of a distribution of all of the shares of common stock of its then wholly-owned subsidiary, red violet, to its stockholders as of the record date and certain warrant holders (the “Spin-off”).

Available Information

Our principal executive offices are located at 2650 North Military Trail, Suite 300, Boca Raton, Florida 33431 and our telephone number is (561) 757-4000. Our corporate website is www.redviolet.com. The website address provided in this 2022 Form 10-K is not intended to function as a hyperlink and information obtained on the website is not and should not be considered part of this 2022 Form 10-K and is not incorporated by reference in this 2022 Form 10-K or any filing with the Securities and Exchange Commission (the “SEC”). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are available, free of charge, under the “Investors” section of our website at www.redviolet.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains an internet website located at <http://www.sec.gov> that contains the information we file or furnish electronically with the SEC.

Information About Our Executive Officers

Our executive officers are as follows:

<u>Name</u>	<u>Position</u>
Derek Dubner	Chief Executive Officer and Chairman
James Reilly	President
Daniel MacLachlan	Chief Financial Officer
Jeff Dell	Chief Information Officer

Mr. Derek Dubner, 51, has served as the Chief Executive Officer and a director of the Company since its formation in August 2017 and continuing through the Spin-off from cogint on March 26, 2018. Mr. Dubner was appointed as Interim Chairman of our board of directors in September 2018 and as Chairman of our board of directors in April 2020. Mr. Dubner served as the Chief Executive Officer and a director of cogint, from March 2016 until the Spin-off. Mr. Dubner served as cogint's Co-Chief Executive Officer from March 2015 until March 2016. Mr. Dubner has over 20 years of experience in the data and analytics industry. Mr. Dubner has served as the Chief Executive Officer of our subsidiary The Best One, Inc. ("TBO"), now known as the IDI Holdings, LLC ("IDI Holdings"), a holding company engaged in the acquisition of operating businesses and the acquisition and development of technology assets across various industries, and its subsidiary, Interactive Data, LLC ("Interactive Data"), since October 2014. Prior to TBO, Mr. Dubner served as General Counsel of TransUnion Risk and Alternative Data Solutions, Inc. ("TRADS") from December 2013 to June 2014. Mr. Dubner served as General Counsel and Secretary of TLO, LLC ("TLO"), an information solutions provider, from inception in 2009 to December 2013.

Mr. James Reilly, 48, has served as President of the Company since its formation in August 2017 and continuing through its Spin-off from cogint. Mr. Reilly served as President of cogint from July 2017 until the Spin-off, and previously from June 2015 until June 2016 and as President and Chief Operating Officer of two of our subsidiaries, IDI Holdings and Interactive Data from October 2014 until June 2016. From July 2016 to June 2017, Mr. Reilly was enjoined from providing services for cogint or its subsidiaries. From January 2014 through September 2014, Mr. Reilly served as Vice President of Sales at TRADS. From August 2010 through its acquisition of substantially all of the assets by TRADS in December 2013, Mr. Reilly served as Senior Vice President of TLO.

Mr. Daniel MacLachlan, 44, has served as the Chief Financial Officer of the Company since its formation in August 2017 and continuing through its Spin-off from cogint. Mr. MacLachlan served as Chief Financial Officer of cogint from March 2016 until the Spin-off and brings over fifteen years of experience as the chief financial officer of data-driven technology companies. Mr. MacLachlan served as an independent director, Audit and Compensation Committee Chairman for Vapor Corp., a U.S.-based distributor and retailer of vaporizers, e-liquids and electronic cigarettes, from April 2015 through April 2016. From October 2014 until February 2015, Mr. MacLachlan served as the Chief Financial Officer of TBO. Prior to TBO, Mr. MacLachlan served in the roles of Director of Finance and Chief Financial Officer for TRADS, after it acquired substantially all of the assets of TLO, through a 363 sale process in December 2013. Mr. MacLachlan was the Chief Financial Officer of TLO from 2009 to December 2013. From 2005 to 2009, Mr. MacLachlan served as the Chief Financial Officer of JARI Research Corporation ("JARI"), a partnership with the Mayo Clinic advancing proprietary cancer therapeutic technology using targeted radioactive therapy. Prior to JARI, Mr. MacLachlan served as a Special Agent in the Federal Bureau of Investigation (FBI) specializing in the criminal investigation of public corruption and civil rights violations.

Mr. Jeff Dell, 51, has served as the Chief Information Officer of the Company since its formation in August 2017 and continuing through its Spin-off from cogint. Mr. Dell served as Chief Information Officer of cogint from September 2016 until the Spin-off and served as the Interim Chief Information Officer of cogint from June 2016 through September 2016. From July 2015 through May 2016, Mr. Dell served as the VP Information Security of cogint. From June 2012 to June 2015, Mr. Dell served as Founder and Chief Executive Officer of Endurance Tracker, Inc., a sports-based data analytics solution. From August 2009 to May 2012, Mr. Dell served as Lead Architect at Tripwire, Inc. From October 2008 to August 2009, Mr. Dell served as Chief Information Security Officer of TLO. From September 2003 to August 2009, Mr. Dell served as Founder and Chief Executive Officer of Activeworx, Inc., a leading information security data analytics company. From January 2001 to August 2003, Mr. Dell served as Chief Information Security Officer of Seisint, Inc., a leading provider in the data fusion industry.

Item 1A. Risk Factors.

Our business, financial condition, operating results, and cash flows may be impacted by a number of factors, many of which are beyond our control, including those set forth below and elsewhere in this 2022 Form 10-K, the occurrence of any one of which could have a material adverse effect on our actual results.

Cybersecurity and Technology Risks

Our products and services are highly technical and if they contain undetected errors, our business could be adversely affected and we may have to defend lawsuits or pay damages in connection with any alleged or actual failure of our products and services.

Our products and services are highly technical and complex. Our products and services have contained and may contain one or more undetected errors, defects or security vulnerabilities. Some errors in our products and services may only be discovered after a product or service has been used by end customers. Any errors or security vulnerabilities discovered in our products after commercial release could result in loss of revenue or delay in revenue recognition, or loss of customers, any of which could adversely affect our business and results of operations. In addition, we could face claims for product liability or breach of personal information. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention. In addition, if our business liability insurance coverage is inadequate or future coverage is unavailable on acceptable terms or at all, our financial condition could be harmed.

If we fail to respond to rapid technological changes in the data and analytics sector, we may lose customers and/or our products and/or services may become obsolete.

The data and analytics sector is characterized by rapidly changing technology, frequent product introductions, and continued evolution of new industry standards. As a result, our success depends upon our ability to develop and introduce in a timely manner new products and services and enhancements to existing products and services that meet changing customer requirements and evolving industry standards. The development of technologically advanced product solutions is a complex and uncertain process requiring high levels of innovation, rapid response and accurate anticipation of technological and market trends. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products and services successfully in a timely manner. Further, we or our competitors may introduce new products or services or product enhancements that shorten the life cycle of existing products or services or cause existing products or services to become obsolete.

Because our networks and information technology systems are critical to our success, if unauthorized persons access our systems or our systems otherwise cease to function properly, our operations could be adversely affected and we could lose revenue or proprietary information, all of which could materially adversely affect our business.

As our business is conducted largely online, it is dependent on our networks being accessible and secure. If an actual or perceived breach of network security occurs, regardless of whether the breach is attributable to our network security controls, the market perception of the effectiveness of our network security could be harmed resulting in loss of current and potential end user customers, data suppliers, or cause us to lose potential value-added resellers, distributors, or strategic partners. Our business is largely dependent on our customer-facing websites and our websites may be inaccessible because of service interruptions or subject to hacking or computer attacks. Because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques. If an actual or perceived breach were to occur, we cannot assure you that we would not lose revenue or not sustain operating losses as a result.

We also rely heavily on large information technology databases and the ability to provide services using that information from those databases. A party who is able to breach the security measures on our networks or who otherwise is able to access our system through unauthorized means could misappropriate either our proprietary information or the personal information of consumers that we collect, or otherwise cause interruptions or malfunctions to our operations. Hacking of computer data systems is a growing problem. Hackers may especially target concerns that are known to maintain large repositories of proprietary information or personal information, which can then be exploited for the hacker's personal gain. If we grow and obtain more visibility, we may be more vulnerable to hacking or other attempts to gain unauthorized access to our system. Moreover, the increased use of mobile devices also increases the risk of theft or the intentional and unintentional disclosure of data including proprietary information or personal information. We may be unable to anticipate all of these vulnerabilities and implement adequate preventative measures and, in some cases, we may not be able to immediately detect a security incident. Any security incident could result in legal, regulatory, and financial liability, as well as harm to our reputation.

We may be required to expend significant capital and other resources to protect against such threats or to alleviate problems caused by breaches in security. Additionally, any server interruptions, break-downs or system failures, including failures which may be attributable to events within or outside our control, could increase our future operating costs and cause us to lose business. We maintain insurance policies covering losses relating to our network systems or other assets. However, these policies may not cover the entire cost of a claim. Any future disruptions in our information technology systems, whether caused by hacking or otherwise, may have a material adverse effect on our future results.

Privacy concerns relating to the collection, use, accuracy, correction and sharing of personal information and any perceived or actual unauthorized disclosure of personal information, whether through breach of our network by an unauthorized party, employee theft, misuse, or error could harm our reputation, impair our ability to attract website visitors and to attract and retain customers, result in a loss of confidence in the security of our products and services, or subject us to claims or litigation arising from damages suffered by consumers, and thereby harm our business and results of operations. In addition, we could incur significant costs which our insurance policies may not adequately cover and we may need to expend significant resources to protect against security breaches and comply with the multitude of state and federal laws regarding data privacy and data breach notification obligations.

Data security and integrity are critically important to our business, and breaches of security, unauthorized access to or disclosure of confidential information, disruption, including distributed denial of service (“DDoS”) attacks or the perception that confidential information is not secure, could result in a material loss of business, substantial legal liability or significant harm to our reputation.

As a nationwide provider of risk and information solutions, we aggregate, store, and process a large amount of sensitive and confidential consumer information including financial information and personal information. This data is often accessed through secure transmissions over public and private networks, including the internet. We have invested significant resources to implement technical and physical security policies, procedures and systems, as well as contractual precautions, that we believe are reasonably designed to identify, detect and prevent the unauthorized access to and alteration and disclosure of our data. Despite these investments and precautions, we cannot assure you that systems that access our services and databases will not be compromised or disrupted, whether as a result of criminal conduct, DDoS attacks or other advanced persistent attacks by malicious actors, including hackers, nation states and criminals, breaches due to employee error or malfeasance, or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. Due to both the nature and volume of the information we aggregate, store, and process, it is not unusual for efforts to occur (coordinated or otherwise) by unauthorized persons to attempt to obtain access to our systems or data, or to inhibit our ability to deliver products or services to a customer. These efforts are likely becoming more sophisticated over time and may attempt to exploit obscure vulnerabilities. We must regularly monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. Several recent, highly-publicized data incidents and DDoS attacks have heightened consumer awareness of this issue and may embolden individuals or groups to target our systems. Unauthorized disclosure, loss or corruption of our data or inability of our customers to access our systems could disrupt our operations, subject us to substantial legal liability, result in a material loss of business and significantly harm our reputation.

Our precautions may be inadequate to thwart a cybersecurity incident. Furthermore, we may not be able to immediately address the consequences of a cybersecurity incident because a successful breach of our computer systems, software, networks or other technology assets could occur and persist for an extended period of time before being detected due to, among other things:

- the breadth and complexity of our operations and the high volume of transactions that we process;
- the large number of customers, counterparties and third-party service providers with which we do business;
- the proliferation and increasing sophistication of cyberattacks; and
- the possibility that a third party, after establishing a foothold on an internal network without being detected, might obtain access to other networks and systems.

The extent of a particular cybersecurity incident and the steps that we may need to take to investigate it may not be immediately clear, and it may take a significant amount of time before such an investigation can be completed and full and reliable information about the incident is known. While such an investigation is ongoing, we may not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, any or all of which could further increase the costs and consequences of a cybersecurity incident.

A growing number of legislative and regulatory bodies have adopted consumer notification and other requirements in the event that a consumer's personal information is accessed by unauthorized persons. It is likely that additional laws pertaining to the use, access, accuracy, and security of personal information will be adopted in the future. In the United States, federal and state laws provide for more than 50 disparate data breach notification regimes, all of which we may be subject to. Complying with such numerous and complex regulations in the event of unauthorized access would be expensive and difficult, and failure to comply with these regulations could subject us to regulatory scrutiny and additional liability.

If we fail to maintain and improve our systems, our certifications, our technology, and our interfaces with data sources and customers, demand for our services could be adversely affected.

In our industry, there are continuous improvements in computer hardware, network operating systems, programming tools, programming languages, operating systems, data matching, data filtering and other database technologies and the use of the internet. These improvements, as well as changes in customer preferences or regulatory requirements, may require changes in the technology used to gather and process our data and deliver our services. Our future success will depend, in part, upon our ability to:

- internally develop and implement new and competitive technologies;
- use leading third-party technologies effectively;
- respond to changing customer needs and regulatory requirements, including being able to bring our new products to the market quickly; and
- transition customers and data sources successfully to new interfaces or other technologies.

We cannot provide assurance that we will successfully implement new technologies, cause customers or data suppliers to implement compatible technologies or adapt our technology to evolving customer, regulatory and competitive requirements. If we fail to respond, or fail to cause our customers or data suppliers to respond, to changes in technology, regulatory requirements or customer preferences, the demand for our services, the delivery of our services or our market reputation could be adversely affected. Additionally, our failure to implement important updates could affect our ability to successfully meet the timeline for us to generate cost savings resulting from our investments in improved technology. Failure to achieve any of these objectives would impede our ability to deliver strong financial results.

Furthermore, we may be required to obtain various industry or technical certifications under our contracts or otherwise to keep pace with our competitors. If we fail to achieve and maintain these key industry or technical certifications, our customers may stop doing business with us and we may not be able to win new business, which would negatively affect our revenue.

Legal, Regulatory and Compliance Risks

Our business is subject to various governmental regulations, laws and orders, compliance with which may cause us to incur significant expenses or reduce the availability or effectiveness of our solutions, and the failure to comply with which could subject us to civil or criminal penalties or other liabilities.

Our business is subject to regulation under the GLBA, the DPPA, the FTC Act, and various other federal, state and local laws and regulations. These laws and regulations, which generally are designed to protect consumers and to prevent the misuse of personal information are complex, change frequently and have tended to become more stringent over time. We have already incurred significant expenses in our endeavors to comply with these laws.

Currently, public concern is high with regard to the collection, use, accuracy, correction and sharing of personal information, including Social Security numbers, dates of birth, financial information, department of motor vehicle data and other data which is personally identifiable or may be considered sensitive. In addition, many advocacy groups as well as some legislatures and government regulators believe that existing laws and regulations do not adequately protect privacy, and are otherwise concerned with businesses' collection, storage, and use of personal information. Relatedly, several U.S. states have introduced and passed legislation to provide consumers with greater transparency and control over their personal information. Laws may allow consumers to request that businesses disclose to them what personal information is collected about them, delete or correct such personal information, and opt-them out of the sale or sharing of their personal information. For example, the following state privacy laws have recently taken effect, or will take effect on a future date: (i) the California Privacy Rights Act (the "CPRA"), effective January 2023, with some provisions applying retroactively, amending the California Consumer Privacy Act (the "CCPA"); (ii) the Virginia Consumer Data Protection Act (the "VCDPA"), effective January 2023; (iii) the Colorado Privacy Act (the "CPA"), effective July 2023; (iv) the Connecticut Data Privacy Act (the "CTDPA"), effective July 2023; and (v) the Utah Consumer Privacy Act (the "UCPA"), effective December 2023. While these laws include specific exemptions, including exemptions for practices and activities conducted pursuant to the GLBA and DPPA, they apply to other portions of our business that are not conducted pursuant to these laws. Other states are actively considering privacy and security bills, and may pass laws, either similar or dissimilar to California's, Virginia's, Colorado's, Connecticut's or Utah's privacy laws in the future. Furthermore, the U.S. Congress is considering legislation and the FTC is considering rulemaking, each with respect to data privacy and security. At this time, it is unclear whether Congress will pass a law or whether the FTC will proceed with regulatory action. At this time, it is also unclear whether any federal requirements will supplement or preempt state-level data privacy and security laws. In the absence of additional federal legislation or rulemaking, the FTC has increasingly used its existing authority, such as under Section 5 of the FTC Act, to bring legal action against organizations who are alleged to have violated consumers' privacy rights or failed to maintain adequate security measures.

These U.S. federal and state laws and regulations, which can be enforced by government entities or, in some cases, private parties, are constantly evolving and can be subject to significant change. Keeping our business in compliance with or bringing our business into compliance with new laws may be costly and may affect our revenue and/or harm our financial results. In addition, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and may be interpreted and applied inconsistently from jurisdiction to jurisdiction and inconsistently with our current policies and practices. In addition, new laws or regulations or changes in enforcement of existing laws or regulations applicable to our customers could affect the activities or strategies of such customers and, therefore, lead to reductions in their level of business with us.

The following legal and regulatory developments also could have a material adverse effect on our business, financial condition or results of operations:

- amendment, enactment or interpretation of laws and regulations that restrict the access and use of personal information and reduce the availability or effectiveness of our solutions or the supply of data available to customers;
- changes in public perception or the position of government actors in favor of further restrictions on information collection and sharing, which may lead to regulations that prevent full utilization of our solutions;
- failure of customers, resellers, distributors, strategic business partners, or vendors to comply with laws or regulations, where these third parties' failures could reflect negatively on us or require us to cease or limit our business with them;
- failure of our solutions to comply with current laws and regulations; and
- failure of our solutions to adapt to changes in the regulatory environment in an efficient, cost-effective manner.

Changes in applicable legislation or regulations that restrict or dictate how we collect, maintain, combine and disseminate information could adversely affect our business, financial condition or results of operations. In the future, we may be subject to significant additional expense to ensure continued compliance with applicable laws and regulations and to investigate, defend or remedy actual or alleged violations. Any failure by us to comply with applicable laws or regulations could also result in significant liability to us, including liability to private plaintiffs as a result of individual or class action litigation, or may result in the cessation of our operations or portions of our operations or impositions of fines and restrictions on our ability to carry on or expand our operations. Moreover, our compliance with privacy laws and regulations and our reputation depend in part on our customers' adherence to privacy laws and regulations and their use of our services in ways consistent with consumer expectations and regulatory requirements. Certain of the laws and regulations governing our business are subject to interpretation by judges, juries and administrative entities, creating substantial uncertainty for our business. We cannot predict what effect the interpretation of existing or new laws or regulations may have on our business.

The outcome of litigation, inquiries, investigations, examinations or other legal proceedings in which we are involved, in which we may become involved, or in which our customers or competitors are involved could subject us to significant monetary damages or restrictions on our ability to do business.

Legal proceedings arise as part of the normal course of our business. These may include actions between us and a current or former employee, actions between us and a current former customer, individual consumer cases, class action lawsuits and inquiries, investigations, examinations, regulatory proceedings or other actions brought by federal (e.g., the FTC) or state (e.g., state attorneys general) authorities. The scope and outcome of these proceedings is often difficult to assess or quantify. Plaintiffs in lawsuits may seek recovery of large amounts and the cost to defend such litigation may be significant. There may also be adverse publicity and uncertainty associated with investigations, litigation and orders (whether pertaining to us, our customers or our competitors) that could decrease customer acceptance of our services or result in material discovery expenses. In addition, a court-ordered injunction or an administrative cease-and-desist order or settlement may require us to modify our business practices or may prohibit conduct that would otherwise be legal and in which our competitors may engage. Many of the technical and complex statutes to which we are subject, including state and federal financial privacy requirements, may provide for civil and criminal penalties and may permit consumers to maintain individual or class action lawsuits against us and obtain statutorily prescribed damages. Additionally, our customers might face similar proceedings, actions or inquiries which could affect their business and, in turn, our ability to do business with those customers.

While we maintain various insurance policies that we believe provide us with suitable coverage and protection in the event of litigation or other legal proceedings, those policies may contain exclusions or limitations, resulting in some cases in us retaining all or a portion of the risk of loss.

While we do not believe that the outcome of any pending or threatened legal proceeding, investigation, examination or supervisory activity will have a material adverse effect on our financial position, such events are inherently uncertain and adverse outcomes could result in significant monetary damages, penalties or injunctive relief against us. Furthermore, we review legal proceedings and claims on an ongoing basis and follow appropriate accounting guidance, including Accounting Standards Codification (“ASC”) 450, “Contingencies,” when making accrual and disclosure decisions. We establish accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. To estimate whether a loss contingency should be accrued by a charge to income, we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. We do not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated.

Our bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain actions, including derivative actions, which could limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company and its directors, officers, other employees, or the Company’s stockholders and may discourage lawsuits with respect to such claims.

Unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought against or on behalf of the Company, (ii) any action asserting a claim of breach of a duty owed by any current or former director, officer, other employee or stockholder of the Company to the Company or the Company’s stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, (iv) any action as to which the Delaware General Corporation Law confers jurisdiction upon the Court of Chancery in the State of Delaware, or (v) any action asserting a claim governed by the internal affairs doctrine, shall, to the fullest extent permitted by law, be the Court of Chancery in the State of Delaware (or, only if the Court of Chancery in the State of Delaware declines to accept jurisdiction over a particular matter, any state or federal court located within the State of Delaware). However, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and as such, the exclusive jurisdiction clauses set forth above would not apply to such suits. Furthermore, Section 22 of the Securities Act of 1933, as amended (the “Securities Act”) provides for concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder, and as such, the exclusive jurisdiction clauses set forth above would not apply to such suits.

Although we believe the exclusive forum provision benefits us by providing increased consistency in the application of Delaware law for the specified types of actions and proceedings, this provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company and its directors, officers, or other employees and may discourage lawsuits with respect to such claims.

Risks Related to Our Common Stock

Our stock price has been and may continue to be volatile, and the value of an investment in our common stock may decline.

The trading price of our common stock has been and is likely to continue to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors could include:

- additions or departures of key personnel;
- changes in governmental regulations or in the status of our regulatory approvals;
- changes in earnings estimates or recommendations by securities analysts;
- any major change in our board or management;
- general economic conditions and slow or negative growth of our markets; and
- political instability, natural disasters, pandemics, war and/or events of terrorism.

From time to time, we estimate the timing of the accomplishment of various commercial and other product development goals or milestones. Also, from time to time, we expect that we will publicly announce the anticipated timing of some of these milestones. All of these milestones are based on a variety of assumptions. The actual timing of these milestones can vary dramatically compared to our estimates, in some cases for reasons beyond our control. If we do not meet these milestones as publicly announced, our stock price may decline.

In addition, the stock market has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of publicly traded companies. Broad market and industry factors may seriously affect the market price of companies' stock, including ours, regardless of actual operating performance. These fluctuations may be even more pronounced in the trading market for our stock. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Future issuances of shares of our common stock in connection with acquisitions or pursuant to our stock incentive plans could have a dilutive effect on your investment.

Since the Spin-off and through December 31, 2022, we issued an aggregate of 3,126,377 shares of our common stock in connection with vesting of awards made under the Red Violet, Inc. 2018 Stock Incentive Plan, as amended (the "2018 Plan"), 620,501 shares of which were retired and cancelled. Also, as of December 31, 2022, 40,134 shares underlying awards made under the 2018 Plan have vested but have not been delivered, and an additional 1,044,132 shares underlying awards made under the 2018 Plan are scheduled to vest and be delivered through 2026. Pursuant to the 2018 Plan, our board of directors may grant stock options, restricted stock units ("RSUs"), or other equity awards to our directors and employees. Future stock incentive plans may also allow our board of directors to issue these equity awards to our directors and employees. When these awards vest or are exercised, the issuance of shares of common stock underlying these awards will have a dilutive effect on our common stock. Future acquisitions may involve the issuance of our common stock as payment, in part or in full, for the business or assets acquired. The benefits derived by us from an acquisition might not exceed the dilutive effect of the shares issued as part of the acquisition.

The concentration of our stock ownership may limit individual stockholder ability to influence corporate matters.

As of December 31, 2022, officers and directors of the Company owned approximately 10% of our common stock (approximately 12% on a fully diluted basis). In addition, one other significant stockholder of the Company owned in aggregate approximately 11% of our common stock (approximately 10% on a fully diluted basis). As a result, these stockholders may be in a position to exert significant influence over all matters requiring stockholder approval, including the election of directors and determination of significant corporate actions. The interests of these stockholders may not always coincide with the interests of other stockholders, and these stockholders may act in a manner that advances their interests and not necessarily those of other stockholders, and might affect the prevailing market price for our securities.

We are an “emerging growth company,” and we cannot be certain if the reduced reporting requirements available to emerging growth companies will make our shares of common stock less attractive to investors.

We are an “emerging growth company,” as defined in Section 2(a) of the Securities Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies. We cannot predict if investors will find our shares of common stock to be less attractive because we may rely on these exemptions. If some investors find our shares of common stock less attractive as a result, there may be a less active trading market for our shares of common stock and our share price may be more volatile.

We expect that we may need additional capital in the future; however, such capital may not be available to us on reasonable terms, if at all, when or as we require additional funding. If we issue additional shares of our common stock or other securities that may be convertible into, or exercisable or exchangeable for, our common stock, our existing stockholders would experience further dilution.

Although we expect that we may need additional capital in the future, we cannot be certain that it will be available to us on acceptable terms when required, or at all. Disruptions in the global equity and credit markets may limit our ability to access capital. Since the Spin-off and through December 31, 2022, we issued an aggregate of 1,233,915 shares of our common stock in connection with registered direct offerings. To the extent that we raise additional funds by issuing equity securities, our shareholders would experience dilution, which may be significant and could cause the market price of our common stock to decline significantly. Any debt financing, if available, may restrict our operations. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue certain operations. Any of these events could significantly harm our business and prospects and could cause our stock price to decline.

Business and Operations Risks

We have a history of losses which makes our future results uncertain.

Since inception, we incurred operating losses through December 31, 2021. We need to generate greater revenue from the sale of our products and services if we are to sustain profitability. If we are unable to generate greater revenue, we may not be able to continue to achieve profitability and generate positive cash flow from operations in the future.

The ongoing and developing Covid-19 pandemic or future pandemics may adversely impact our business, our future results of operations and our overall financial performance.

The global spread of Covid-19, and the various responses to it have created significant volatility, uncertainty and economic disruption. Covid-19 caused us, as well as many of our customers and vendors, to change certain aspects of operations and curtail travel at times. The extent to which the Covid-19 pandemic or any other pandemic may affect us in the future is uncertain and will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the pandemic and any resurgences of the pandemic; the emergence and severity of new variants; governmental, business and individuals’ actions that have been and continue to be taken in response to the pandemic; vaccination rates and the effectiveness of vaccines against new variants; the availability and cost to access the capital markets; the effect on our customers and customer demand for and ability to pay for our services; and disruptions or restrictions on our employees’ ability to work and travel. If new variants cause severe illness or existing vaccines prove ineffective against new variants, resulting in renewed travel restrictions or stay-at-home orders, that may also interfere with the conduct of our business. Such results could have a material adverse effect on our operations, business, financial condition, results of operations, or cash flows.

Environmental issues, including any future reporting obligations in connection with environmental issues, may adversely impact our business and operations.

Extreme weather events and natural disasters may disrupt our operations or those of our customers and suppliers. These events may become more frequent and more severe as a result of climate change, and the long-term impacts to the economy and our industry are unknown. While we maintain business continuity and disaster recovery plans, we cannot be certain that those plans will be effective. Even if we are unaffected by an extreme weather event or natural disaster, or recover from one quickly, our customers or suppliers may be more severely impacted, thereby affecting their ability to continue to do business with us.

Additionally, the SEC is considering enhancing and standardizing climate-related disclosure rules for publicly traded companies. This, in turn, may result in increased compliance costs and increased legal exposure. Any climate-related disclosures would likely be based on certain assumptions, estimates and third-party data, and our reports may not meet the expectations of regulators, investors, or other third parties. If our environmental practices, reporting, and performance do not meet expectations, or are perceived as not meeting expectations, we may be subject to government investigations, lawsuits, or other legal actions. Our reputation and customer retention may also be negatively affected.

We depend, in part, on strategic alliances and joint ventures to grow our business. If we are unable to develop and maintain these strategic alliances and joint ventures, our growth may be adversely affected.

An important focus of our business is to identify business partners who can enhance our services, enable us to develop solutions that differentiate us from our competitors, drive users to our websites and monetize our data. We have entered into several alliance agreements or license agreements with respect to certain of our datasets and services and may enter into similar agreements in the future. These arrangements may require us to restrict our use of certain of our technologies or datasets among certain customer industries, restrict content on our websites or grant licenses on terms that ultimately may prove to be unfavorable to us, any of which could adversely affect our business, financial condition or results of operations. Relationships with our alliance agreement partners may include risks due to incomplete information regarding the marketplace and commercial strategies of our partners, and our alliance agreements or other licensing agreements may be the subject of contractual disputes. If we or our alliance agreements' partners are not successful in maintaining or commercializing the alliance agreements' services, such commercial failure could adversely affect our business.

If we consummate any future acquisitions, we will be subject to the risks inherent in identifying, acquiring and operating a newly acquired business.

We may, in the future, acquire additional businesses, which we believe could complement or expand our current business or offer growth opportunities. We may experience difficulties in identifying potential acquisition candidates that complement our current business at appropriate prices, or at all. We cannot assure you that our acquisition strategy will be successful. We may spend significant management time and resources in analyzing and negotiating acquisitions or investments that are not consummated. Furthermore, the ongoing process of integrating an acquired business is distracting, time consuming, expensive, and requires continuous optimization and allocation of resources. Additionally, if we use stock as consideration, this would dilute our existing shareholders and if we use cash, this would reduce our liquidity and impact our financial flexibility. We may seek debt financing for particular acquisitions, which may not be available on commercially reasonable terms, or at all. We face the risks associated with the business acquisition strategy, including:

- the potential disruption of our existing businesses, including the diversion of management attention and the redeployment of resources;
- entering new markets or industries in which we have limited prior experience;
- our failure in due diligence to identify key issues specific to the businesses we seek to acquire or the industries or other environments in which they operate, or, failure to protect against contingent liabilities arising from those issues;
- unforeseen, hidden or fraudulent liabilities;
- our difficulties in integrating, aligning and coordinating organizations which will likely be geographically separated and may involve diverse business operations and corporate cultures;
- our difficulties in integrating and retaining key management, sales, research and development, production and other personnel;
- the potential loss of key employees, customers or distribution partners of the acquired business;
- our difficulties in incorporating the acquired business into our organization;
- the potential loss of customers, resellers, distributors, strategic business partners, or suppliers;
- our difficulties in integrating or expanding information technology systems and other business processes to accommodate the acquired business;
- the risks associated with integrating financial reporting and internal control systems, including the risk that significant deficiencies or material weaknesses may be identified in acquired entities;
- the potential for future impairments of goodwill and other intangible assets if the acquired business does not perform as expected;

- the inability to obtain necessary government approvals for the acquisition, if any; and
- our successfully operating the acquired business.

If we cannot overcome these challenges, we may not realize actual benefits from past and future acquisitions, which will impair our overall business results. If we complete an investment or acquisition, we may not realize the anticipated benefits from the transaction.

Our relationships with key customers may be materially diminished or terminated.

We have established relationships with a number of customers, many of whom could unilaterally terminate their relationship with us or materially reduce the amount of business they conduct with us at any time. Market competition, customer requirements, customer financial condition and customer consolidation through mergers or acquisitions also could adversely affect our ability to continue or expand these relationships. There is no guarantee that we will be able to retain or renew existing agreements, maintain relationships with any of our customers on acceptable terms or at all or collect amounts owed to us from insolvent customers. The loss of one or more of our major customers could adversely affect our business, financial condition and results of operations.

If we lose the services of key personnel, it could adversely affect our business.

Our future success depends, in part, on our ability to attract and retain key personnel. Our future also depends on the continued services of Derek Dubner, our Chief Executive Officer and Chairman, James Reilly, our President, Daniel MacLachlan, our Chief Financial Officer and other key employees in all areas of our organization, each of whom is important to the management of certain aspects of our business and operations and the development of our strategic direction, and each of whom may be difficult to replace. The loss of the services of these key individuals and the process to replace these individuals would involve significant time and expense and could significantly delay or prevent the achievement of our business objectives.

Further, the FTC and certain other government entities have indicated a desire to limit the allowability of agreements that are designed to prevent employees from competing with their former employers. If the enforceability of these types of “non-compete” agreements is affected by future lawmaking or regulatory action, it may impede our ability to ensure that former employees, who received training and experience through their employment with us, refrain from using their knowledge of our business and operations to compete with us.

Our revenue is concentrated in the U.S. market across a broad range of industries. When these industries or the broader financial markets experience a downturn, demand for our services and revenue may be adversely affected.

Our customers, and therefore our business and revenue, sometimes depend on favorable macroeconomic conditions and are impacted by the availability of credit, the level and volatility of interest rates, inflation, employment levels, consumer confidence and housing demand. In addition, a significant amount of our revenue is concentrated in the U.S. market across a broad range of industries. Our customer base suffers when financial markets experience volatility, illiquidity and disruption, which has occurred in the past and which could reoccur. Such market developments, and the potential for increased and continuing disruptions going forward, present considerable risks to our business and operations. Changes in the economy have resulted, and may continue to result, in fluctuations in volumes, pricing and operating margins for our services. Recent inflation, and higher interest rates imposed to combat inflation, may reduce the demand for credit. This, in turn, may lead to a decline in the volume of services we provide to our customers in the banking or financial industry, or other industries that are affected by these types of disruptions. If businesses in these industries experience economic hardship, we cannot assure you that we will be able to generate future revenue growth and these types of disruptions could negatively impact our revenue and results of operations.

We could lose our access to data sources which could prevent us from providing our services.

Our products and services depend extensively upon continued access to and receipt of data from external sources, including data received from strategic partners and various government and public record databases. In some cases, we compete with our data providers. Our data providers could stop providing data, provide untimely data or increase the costs for their data for a variety of reasons, including a perception that our systems are insecure as a result of a data security breach, budgetary constraints, a desire to generate additional revenue or for regulatory or competitive reasons. We could also become subject to increased legislative, regulatory or judicial restrictions or mandates on the collection, disclosure or use of such data, in particular if such data is not collected by our providers in a way that allows us to legally use the data. If we were to lose access to this external data or if our access or use were restricted or were to become less economical or desirable, our ability to provide services could be negatively impacted, which would adversely affect our reputation, business, financial condition and results of operations. We cannot provide assurance that we will be successful in maintaining our relationships with these external data source providers or that we will be able to continue to obtain data from them on acceptable terms or at all. Furthermore, we cannot provide assurance that we will be able to obtain data from alternative sources if our current sources become unavailable.

The foregoing risks are heightened with respect to our largest data supplier, with whom we have expanded our relationship while securing favorable business terms over the years. If we are unable to maintain our current relationship with our largest data supplier, our ability to provide services could be negatively impacted, as we would need to secure comparable data on similar terms, which would require significant time, expense, and resources, and may in the short-term adversely affect our reputation, business, financial condition and results of operations and, if we are unable to establish a similar relationship with other data suppliers over time, could have a long-term material impact on our business and financial condition.

We must adequately protect our intellectual property in order to prevent loss of valuable proprietary information.

We rely primarily upon a combination of patent, copyright, trademark and trade secret laws, as well as other intellectual property laws, and confidentiality procedures and contractual agreements, such as non-disclosure agreements, to protect our proprietary technology. However, unauthorized parties may attempt to copy or reverse engineer aspects of our products or services or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products or services is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our intellectual property. If the protection of our intellectual property proves to be inadequate or unenforceable, others may be able to use our proprietary developments without compensation to us, resulting in potential cost advantages to our competitors.

Some of our systems and technologies are not covered by any copyright, patent or patent application. We cannot guarantee that: (i) our intellectual property rights will provide us with a competitive advantage; (ii) our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will be effective; (iii) our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak; (iv) any of the patent, trademark, copyright, trade secret or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, or abandoned; (v) competitors will not design around our protected systems and technology; or (vi) that we will not lose the ability to assert our intellectual property rights against others.

Policing unauthorized use of our proprietary rights can be difficult and costly. Litigation, while it may be necessary to enforce or protect our intellectual property rights, could result in substantial costs and diversion of resources and management attention and could adversely affect our business, even if we are successful on the merits.

Additionally, third parties may independently develop intellectual property similar to ours, but without use of our trade secrets or proprietary information. In such cases, the value of our intellectual property may be diminished but we will lack any enforceable right or remedy.

We face intense competition from both start-up and established companies that may have significant advantages over us and our products.

The market for our products and services is intensely competitive. There are numerous companies competing with us in various segments of the data and analytics sector, and their products and services may have advantages over our products and services in areas such as conformity to existing and emerging industry standards, performance, price, ease of use, scalability, reliability, flexibility, product features and technical support.

Our principal competitors in the data and analytics sector include Palantir, RELX Group (LexisNexis), TransUnion, and Thomson Reuters. Current and potential competitors may have one or more of the following significant advantages:

- greater financial, technical and marketing resources;
- better name recognition;
- more comprehensive solutions;
- better or more extensive cooperative relationships; and
- larger customer base.

We cannot assure you that we will be able to compete successfully with our existing or new competitors. Some of our competitors may have, in relation to us, one or more of the following: longer operating histories, longer-standing relationships with end-user customers and greater customer service, public relations and other resources. As a result, these competitors may be able to more quickly develop or adapt to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products and services. Additionally, it is likely that new competitors or alliances among existing competitors could emerge and rapidly acquire significant market share.

There may be further consolidation in our end-customer markets, which may adversely affect our revenue.

There has been, and we expect there will continue to be, merger, acquisition and consolidation activity in our customer markets. If our customers merge with, or are acquired by, other entities that are not our customers, or that use fewer of our services, our revenue may be adversely impacted. In addition, industry consolidation could affect the base of recurring transaction-based revenue if consolidated customers combine their operations under one contract, since many of our contracts provide for volume discounts. In addition, our existing customers might leave certain geographic markets, which would no longer require them to purchase certain products from us and, consequently, we would generate less revenue than we currently expect.

To the extent the availability of free or relatively inexpensive consumer and/or business information increases, the demand for some of our services may decrease.

Public and commercial sources of free or relatively inexpensive consumer and business information have become increasingly available and this trend is expected to continue. Public and commercial sources of free or relatively inexpensive consumer and/or business information may reduce demand for our services. To the extent that our customers choose not to obtain services from us and instead rely on information obtained at little or no cost from these public and commercial sources, our business, financial condition and results of operations may be adversely affected.

If our newer products do not achieve market acceptance, revenue growth may suffer.

Our products have been in the market place for a limited period of time and may have longer sales cycles than competitive products. Accordingly, we may not achieve the meaningful revenue growth needed to sustain operations. We cannot provide any assurances that sales of our newer products will continue to grow or generate sufficient revenues to sustain our business. If we are unable to recognize revenues due to longer sales cycles or other problems, our results of operations could be adversely affected.

We have not yet received broad market acceptance for our newer products. We cannot assure you that our present or future products will achieve market acceptance on a sustained basis. In order to achieve market acceptance and achieve future revenue growth, we must introduce complementary products, incorporate new technologies into existing product lines, and design and develop and successfully commercialize higher performance products in a timely manner. We cannot assure you that we will be able to offer new or complementary products that gain market acceptance quickly enough to avoid decreased revenues during current or future product introductions or transitions.

Our products and services can have long sales and implementation cycles, which may result in substantial expenses before realizing any associated revenue.

The sale and implementation of our products and services to large companies and government entities typically involves a lengthy education process and a significant technical evaluation and commitment of capital and other resources. This process is also subject to the risk of delays associated with customers' internal budgeting and other procedures for approving capital expenditures, and testing and accepting new technologies that affect key operations. As a result, sales and implementation cycles for our products and services can be lengthy, and we may expend significant time and resources before we receive any revenues from a customer or potential customer. Our quarterly and annual operating results could be adversely affected if orders forecast for a specific customer and for a particular period are not realized.

If our outside service providers and key vendors are not able to or do not fulfill their service obligations, our operations could be disrupted and our operating results could be harmed.

We depend on a number of service providers and key vendors such as telecommunication companies, software engineers, data processors, and software and hardware vendors, who are critical to our operations. These service providers and vendors are involved with our service offerings, communications and networking equipment, computer hardware and software and related support and maintenance. Although we have implemented service-level agreements and have established monitoring controls, our operations could be disrupted if we do not successfully manage relationships with our service providers, if they do not perform or are unable to perform agreed-upon service levels, or if they are unwilling to make their services available to us at reasonable prices. If our service providers and vendors do not perform their service obligations, it could adversely affect our reputation, business, financial condition and results of operations.

Consolidation in the data and analytics sector may limit market acceptance of our products and services.

Several of our competitors have acquired companies with complementary technologies in the past. We expect consolidation in the industries we serve to continue in the future. These acquisitions may permit our competitors to accelerate the development and commercialization of broader product lines and more comprehensive solutions than we currently offer. Acquisitions of vendors or other companies with whom we have a strategic relationship by our competitors may limit our access to commercially significant technologies. Further, business combinations are creating companies with larger market shares, customer bases, sales forces, product offerings and technology and marketing expertise, which may make it more difficult for us to compete.

We may incur substantial expenses defending the Company against claims of infringement.

There are numerous patents held by many companies relating to the design and manufacture of data and analytics solutions. Third parties may claim that our products and/or services infringe on their intellectual property rights. Any claim, with or without merit, could consume management's time, result in costly litigation, cause delays in sales or implementation of products or services or require entry into royalty or licensing agreements. In this respect, patent and other intellectual property litigation is becoming increasingly more expensive in terms of legal fees, expert fees and other expenses. Royalty and licensing agreements, if required and available, may be on terms unacceptable to us or detrimental to our business. Moreover, a successful claim of product infringement against us or our failure or inability to license the infringed or similar technology on commercially reasonable terms could seriously harm our business.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our headquarters are located at 2650 North Military Trail, Suite 300, Boca Raton, Florida 33431, where we lease 21,020 rentable square feet of office space in accordance with an 89-month lease agreement as amended and effective in January 2017. Our Seattle office is located at 1111 Third Avenue, Seattle, Washington 98101, where we lease 6,003 rentable square feet of office space in accordance with a 90-month lease agreement entered into in April 2017.

Item 3. Legal Proceedings.

The Company is not currently a party to any legal proceeding, investigation or claim which, in the opinion of management, is likely to have a material adverse effect on the business, financial condition, results of operations or cash flows. Legal fees associated with such legal proceedings are expensed as incurred. We review legal proceedings and claims on an ongoing basis and follow appropriate accounting guidance, including ASC 450, when making accrual and disclosure decisions. We establish accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. To estimate whether a loss contingency should be accrued by a charge to income, we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. We do not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated.

In addition to the foregoing, we may be involved in litigation from time to time in the ordinary course of business. We do not believe that the ultimate resolution of any such matters will have a material adverse effect on our business, financial condition, results of operations or cash flows. However, the results of such matters cannot be predicted with certainty and we cannot assure you that the ultimate resolution of any legal or administrative proceeding or dispute will not have a material adverse effect on our business, financial condition, results of operations and cash flows.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on The NASDAQ Capital Market (“NASDAQ”) under the symbol “RDVT,” and began regular-way trading on March 27, 2018. We have not paid any dividends or made any other distributions in respect of our common stock since March 27, 2018, and we have no plans to pay any dividends or make any other distributions in the future.

As of March 3, 2023, there were 13,958,504 shares of our common stock issued and outstanding. As of March 3, 2023, there were 28 record holders of our common stock.

Recent Sale of Unregistered Securities

None.

Repurchases of Equity Securities

The following table provides information relating to the Company's repurchase of common stock during the three months ended December 31, 2022 pursuant to the Stock Repurchase Program (as defined below):

Period	Total number of shares purchased	Average price paid per share ⁽¹⁾	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
October 1, 2022 - October 31, 2022	28,527	\$ 17.04	28,527	\$ 4,132,148
November 1, 2022 - November 30, 2022	473	\$ 17.41	473	\$ 4,123,914
December 1, 2022 - December 31, 2022	-	\$ -	-	\$ 4,123,914
Total	<u>29,000</u>	\$ 17.04	<u>29,000</u>	

(1) Exclusive of commission fees incurred in relation to the repurchase of common stock.

On May 4, 2022, the Company announced that the board of directors authorized the repurchase of up to \$5.0 million of the Company's common stock from time to time (the "Stock Repurchase Program"). The Stock Repurchase Program does not obligate the Company to repurchase any shares and it may be modified, suspended or terminated at any time and for any reason at the discretion of the board of directors.

Shares of common stock withheld as payment of withholding taxes in connection with the vesting of equity awards are also treated as common stock repurchases. Those withheld shares of common stock are not required to be disclosed under Item 703 of Regulation S-K and accordingly are excluded from the amounts in the table above.

Item 6. [Reserved].

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion in conjunction with our consolidated financial statements and related notes included in this 2022 Form 10-K. This 2022 Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), Section 27A of the Securities Act, and Section 21E of the Exchange Act, about our expectations, beliefs, or intentions regarding our business, financial condition, results of operations, strategies, or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends, or results as of the date they are made. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those contained in Part I, “Item 1A. Risk Factors” of this 2022 Form 10-K. We do not undertake any obligation to update forward-looking statements, except as required by law. We intend that all forward-looking statements be subject to the safe harbor provisions of the PSLRA. These forward-looking statements are only predictions and reflect our views as of the date they are made with respect to future events and financial performance.

Overview

Red Violet, Inc., a Delaware corporation, is dedicated to making the world a safer place and reducing the cost of doing business. 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. We drive workflow efficiency and enable organizations to make better data-driven decisions.

Organizations are challenged by the structure, volume and disparity of data. Our platform and applications transform the way our customers interact with information, presenting connections and relevance of information otherwise unattainable, which drives actionable insights and better outcomes. Leveraging cloud-native proprietary technology and applying machine learning and advanced analytical capabilities, CORE provides essential solutions to public and private sector organizations through intuitive, easy-to-use analytical interfaces. With massive data assets consisting of public record, proprietary and publicly-available data, our differentiated information and innovative platform and solutions deliver identity intelligence – entities, relationships, affiliations, interactions, and events. Our solutions are used today to enable frictionless commerce, to ensure safety, and to reduce fraud and the concomitant expense borne by society.

While our platform powers many diverse solutions for our customers, we presently market our solutions primarily through two brands, IDI™ and FOREWARN®. IDI is a leading-edge, analytics and information solutions provider delivering actionable intelligence to the risk management industry in support of use cases such as the verification and authentication of consumer identities, due diligence, prevention of fraud and abuse, legislative compliance, and debt recovery. idiCORE™ is IDI's flagship product. idiCORE is a next-generation, investigative solution used to address a variety of organizational challenges including due diligence, risk mitigation, identity authentication and regulatory compliance, by financial services companies, insurance companies, healthcare companies, law enforcement and government, collections, law firms, retail, telecommunication companies, corporate security and investigative firms. FOREWARN is an app-based solution currently tailored for the real estate industry, providing instant knowledge prior to face-to-face engagement with a consumer, helping professionals identify and mitigate risk. As of December 31, 2022 and 2021, IDI had 7,021 and 6,548 billable customers and FOREWARN had 116,960 and 82,419 users, respectively. We define a billable customer of IDI as a single entity that generated revenue during 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. 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.

We generate substantially all of our revenue from licensing our solutions. Customers access our solutions through a hosted environment using an online interface, batch processing, API and custom integrations. We recognize revenue from licensing fees (a) on a transactional basis determined by the customer’s usage, (b) via a monthly fee or (c) from a combination of both. Revenue pursuant to pricing contracts containing a monthly fee is recognized ratably over the contract period. Pricing contracts are generally annual contracts or longer, with auto renewal. For the years ended December 31, 2022 and 2021, 75% and 80% of total revenue was attributable to customers with pricing contracts, respectively, versus 25% and 20% attributable to transactional customers, respectively.

We endeavor to understand our customers' needs at the moment of first engagement. We continuously engage with our customers and evaluate their usage of our solutions throughout their life cycle, to maximize utilization of our solutions and, hence, their productivity. Our go-to-market strategy leverages (a) an inside sales team that cultivates relationships, and ultimately closes business, with their end-user markets, (b) a strategic sales team that provides a more personal, face-to-face approach for major accounts within certain industries, and (c) distributors, resellers, and strategic partners that have a significant foothold in many of the industries that we have not historically served, as well as to further penetrate those industries that we do serve. We employ a "land and expand" approach. Our sales model generally begins with a free trial followed by an initial purchase on a transactional basis or minimum-committed monthly spend. As organizations derive benefits from our solutions, we are able to expand within organizations as additional use cases are presented across departments, divisions and geographic locations and customers become increasingly reliant on our solutions in their daily workflow.

In order for us to continue to develop new products, grow our existing business and expand into additional markets, we must generate and sustain sufficient operating profits and cash flow in future periods. This will require us to generate additional sales from current products and new products currently under development. We continue to build out our sales organization to drive current products and to introduce new products into the marketplace.

During 2020, we experienced significantly reduced commercial activity in numerous aspects of our business as a result of the preventative and protective actions taken by federal, state and local governments to combat Covid-19, including the implementation of stay-at-home orders, social distancing policies and certain temporary government-imposed moratoria on collection customers' activities. During 2021 and 2022, we saw ongoing improvement in our results of operations, with the exception of our *idIVERIFIED* service, which is an ancillary collections market offering that is purely transactional and of a lower margin profile. At this time, we cannot estimate if, or when, our *idIVERIFIED* service volume will return to pre-Covid levels.

To further support our liquidity, beginning April 1, 2020, we elected, under Section 2302 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), to defer payment of the employer portion of Social Security payroll tax. Under the CARES Act, employers could forgo timely payment of the employer portion of Social Security taxes that would otherwise be due from March 27, 2020 through December 31, 2020, without penalty or interest charges. We paid 50% of the deferred amount in December 2021 and the remainder in December 2022, as required. On May 5, 2020, we received funding under a promissory note dated May 5, 2020 evidencing an unsecured non-recourse loan in the principal amount of \$2.2 million under the CARES Act (the "CARES Act Loan"), which was fully forgiven by Legacy Bank of Florida (the "Lender") and the U.S. Small Business Administration in June 2021, resulting in a gain on extinguishment of debt of \$2.2 million for the year ended December 31, 2021.

Industry Trends and Uncertainties

Operating results are affected by the following factors that impact the data and analytics sector in the United States:

- The macroeconomic conditions, including the availability of affordable credit and capital, interest rates, inflation, employment levels and consumer confidence, influence our revenue. Macroeconomic conditions also have a direct impact on overall technology, marketing and advertising expenditures in the U.S. As marketing budgets are often more discretionary in nature, they are easier to reduce in the short term as compared to other corporate expenses. Future widespread economic slowdowns in any of the industries or markets our customers serve could reduce the technology and marketing expenditures of our customers and prospective customers.
- Our revenue is also significantly influenced by industry trends, including the demand for business analytics services in the industries we serve. Companies are increasingly relying on business analytics and related technologies to help process data in a cost-efficient manner. As customers have gained the ability to rapidly aggregate data generated by their own activities, they are increasingly expecting access to real-time data and analytics from their service providers as well as solutions that fully integrate into their workflows. The increasing number and complexity of regulations centered around data and provision of information services makes operations for businesses in the data and analytic sector more challenging.
- The enactment of new or amended legislation or industry regulations pertaining to consumer or private sector privacy issues could have a material adverse impact on information and marketing services. Legislation or industry regulations regarding consumer or private sector privacy issues could place restrictions upon the collection, sharing and use of information that is currently legally available, which could materially increase our cost of collecting and maintaining some data. These types of legislation or industry regulations could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our customers' requirements and our profitability and cash flow targets.

Company Specific Trends and Uncertainties

Our operating results are also directly affected by company-specific factors, including the following:

- Some of our competitors have substantially greater financial, technical, sales and marketing resources, better name recognition and a larger customer base. Even if we introduce advanced products that meet evolving customer requirements in a timely manner, there can be no assurance that our new products will gain market acceptance.
- Certain companies in the data and analytics sector have expanded their product lines or technologies in recent years as a result of acquisitions. Further, more companies have developed products which conform to existing and emerging industry standards and have sought to compete on the basis of price. We anticipate increased competition from large data and analytics vendors. Increased competition in the data and analytics sector could result in significant price competition, reduced profit margins or loss of market share, any of which could have a material adverse effect on our business, operating results and financial condition. There can be no assurance that we will be able to compete successfully in the future with current or new competitors.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to the allowance for doubtful accounts, useful lives of intangible assets, recoverability of the carrying amounts of goodwill and intangible assets, share-based compensation and income tax provision. We base our estimates on historical experience and on various other assumptions that are believed to be 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 under different assumptions or conditions.

We believe the following critical accounting policies govern our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

We recognize revenue in accordance with ASC 606, "Revenue from Contracts with Customers" ("Topic 606"). Under this standard, revenue is recognized when control of goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Our performance obligation is to provide on demand information and identity intelligence solutions to our customers by leveraging our proprietary technology and applying machine learning and advanced analytics to our massive data repository. The pricing for the customer contracts is based on usage, a monthly fee, or a combination of both.

Revenue is generally recognized on (a) a transactional basis determined by the customers' usage, (b) a monthly fee or (c) a combination of both. Revenue pursuant to transactions determined by the customers' usage is recognized when the transaction is complete, and either party may terminate the transactional agreement at any time. Revenue pursuant to contracts containing a monthly fee is considered to be a single performance obligation consisting of a series of distinct services, and is recognized ratably over the contract period, which is generally 12 months, and the contract shall automatically renew for additional, successive 12-month terms unless written notice of intent not to renew is provided by one party to the other at least 30 days or 60 days prior to the expiration of the then current term. Variable fees are allocated to each distinct month in the series for which they are earned. Our revenue is recorded net of applicable sales taxes billed to customers.

Available within Topic 606, we have applied the portfolio approach practical expedient in accounting for customer revenue as one collective group, rather than individual contracts. Based on our historical knowledge of the contracts contained in this portfolio and the similar nature and characteristics of the customers, we have concluded the financial statement effects are not materially different than if accounting for revenue on a contract by contract basis.

Revenue is recognized over a period of time. Our customers simultaneously receive and consume the benefits provided by our performance as and when provided. Furthermore, we have elected the "right to invoice" practical expedient, available within Topic 606, as our measure of progress, since we have a right to payment from a customer in an amount that corresponds directly with the value of our performance completed-to-date. In some arrangements, a right to consideration for our performance under the customer contract may occur before invoicing to the customer. Our revenue arrangements do not contain significant financing components.

For the years ended December 31, 2022 and 2021, 75% and 80% of total revenue was attributable to customers with pricing contracts, respectively, versus 25% and 20% attributable to transactional customers, respectively. Pricing contracts are generally annual contracts or longer, with auto renewal.

If a customer pays consideration before we transfer services to the customer, those amounts are classified as deferred revenue. As of December 31, 2022 and 2021, the balance of deferred revenue was \$0.7 million and \$0.8 million, respectively, all of which is expected to be realized in the next 12 months. In relation to the deferred revenue balance as of December 31, 2021, \$0.8 million was recognized into revenue during the year ended December 31, 2022.

As of December 31, 2022, \$8.0 million of revenue is expected to be recognized in the future for performance obligations that are unsatisfied or partially unsatisfied, related to pricing contracts that have a term of more than 12 months, of which \$6.0 million of revenue will be recognized in 2023, \$1.8 million in 2024, and \$0.2 million in 2025. The actual timing of recognition may vary due to factors outside of our control. We exclude variable consideration related entirely to wholly unsatisfied performance obligations and contracts and recognizes such variable consideration based upon the right to invoice the customer.

Sales commissions are incurred and recorded on an ongoing basis over the term of the customer relationship. These costs are recorded in sales and marketing expenses.

In addition, we elected the practical expedient to not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Allowances for doubtful accounts

We maintain allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Management determines whether an allowance needs to be provided for an amount due from a customer depending on the aging of the individual receivable balance, recent payment history, contractual terms and other qualitative factors such as status of business relationship with the customer. Historically, our estimates for doubtful accounts have not differed materially from actual results. The amount of the allowance for doubtful accounts was \$0.06 million and \$0.03 million as of December 31, 2022 and 2021, respectively, which was included within accounts receivable, net, in the consolidated balance sheets.

Income taxes

We account for income taxes in accordance with ASC 740, "Income Taxes," which requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. As of December 31, 2022 and 2021, we had a valuation allowance of \$8.0 million and \$9.5 million, respectively. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

ASC 740 clarifies the accounting for uncertain tax positions. This interpretation requires that an entity recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company's accounting policy is to accrue interest and penalties related to uncertain tax positions, if and when required, as interest expense and a component of other expenses, respectively, in the consolidated statements of operations.

Intangible assets other than goodwill

Our intangible assets are initially recorded at the capitalized actual costs incurred, their acquisition cost, or fair value if acquired as part of a business combination, and amortized on a straight-line basis over their respective estimated useful lives, which are the periods over which the assets are expected to contribute directly or indirectly to the future cash flows of the Company. The Company's intangible assets represent software developed for internal use. Intangible assets have estimated useful lives of 5-10 years.

In accordance with ASC 350-40, "*Software—internal use software*," we capitalize eligible costs, including salaries and staff benefits, share-based compensation, travel expenses incurred by relevant employees, and other relevant costs of developing internal-use software that are incurred in the application development stage when developing or obtaining software for internal use. Once the software developed for internal use is ready for its intended use, it is amortized on a straight-line basis over its useful life.

Goodwill

In accordance with ASC 350, "*Intangibles—Goodwill and Other*," goodwill is tested at least annually for impairment, or when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, by assessing qualitative factors or performing a quantitative analysis in determining whether it is more likely than not that its fair value exceeds the carrying value. A quantitative assessment involves determining the fair value of each reporting unit using market participant assumptions. An entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit.

On October 1, 2022 and 2021, we performed qualitative assessments on the reporting unit and, based on this assessment, no events have occurred to indicate that it is more likely than not that the fair value of the reporting unit is less than its carry amount. We did not record a goodwill impairment loss during the years ended December 31, 2022 and 2021, and as of December 31, 2022, there was no accumulated goodwill impairment loss.

For purposes of reviewing impairment and the recoverability of goodwill, we must make various assumptions regarding estimated future cash flows and other factors in determining the fair value of the reporting unit, including market multiples, discount rates, etc.

Impairment of long-lived assets

Finite-lived intangible assets are amortized over their respective useful lives and, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with ASC 360-10-15, "*Impairment or Disposal of Long-Lived Assets*." In evaluating long-lived assets for recoverability, including finite-lived intangibles and property and equipment, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with ASC 360-10-15. To the extent that estimated future undiscounted cash inflows attributable to the asset, less estimated future undiscounted cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

Asset recoverability is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the undiscounted future cash flows. In calculating the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters such as revenue growth rates, gross margin percentages and terminal growth rates.

We did not record an impairment loss of long-lived assets during the years ended December 31, 2022 and 2021.

Share-based compensation

We account for share-based compensation to employees in accordance with ASC 718, "*Compensation—Stock Compensation*." Under ASC 718, we measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and, for those awards subject only to service condition, recognizes the costs on a straight-line basis over the period the employee is required to provide service in exchange for the award, which generally is the vesting period. For awards with performance and service conditions, we begin recording share-based compensation when achieving the performance criteria is probable and we recognize the costs using the accelerated attribution method.

The fair value of RSUs is determined based on the number of shares granted and the quoted price of our common stock. The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amount will be recorded as a cumulative adjustment in the period estimates are revised. Changes in our estimates and assumptions may cause us to realize material changes in share-based compensation expense in the future.

We have issued share-based awards with performance-based vesting criteria. Achievement of the milestones must be probable before we begin recording share-based compensation expense. When the performance-based vesting criteria is considered probable, we begin to recognize compensation expense at that time. In the period that achievement of the performance-based criteria is deemed probable, US GAAP requires the immediate recognition of all previously unrecognized compensation since the original grant date. As a result, compensation expense recorded in the period that achievement is deemed probable could include a substantial amount of previously unrecorded compensation expense related to the prior periods. For any share-based awards where performance-based vesting criteria is no longer considered probable, previously recognized compensation cost would be reversed. As of December 31, 2022, we have achieved the performance-based criteria for all share-based awards with performance-based vesting criteria, except for the Criteria Four award, as defined in Note 10, "Share-based compensation," included in "Notes to Consolidated Financial Statements."

We apply Accounting Standards Update 2018-07, "*Improvements to Nonemployee Share-Based Payment Accounting*," which generally expands the scope of ASC 718, *Compensation—Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees and supersedes the guidance in ASC 505-50, *Equity-Based Payments to Non-employees*, which previously included the accounting for nonemployee awards.

Recently Issued Accounting Standards

See Item 8 of Part II, "Financial Statements and Supplementary Data – Note 2. Summary of significant accounting policies - (s) *Recently issued accounting standards.*"

Fourth Quarter Financial Results

For the three months ended December 31, 2022 as compared to the three months ended December 31, 2021:

- Total revenue increased 16% to \$13.1 million. Platform revenue increased 19% to \$12.9 million. Services revenue decreased 54% to \$0.2 million.
- Gross profit increased 19% to \$8.3 million. Gross margin increased to 63% from 62%.
- Adjusted gross profit increased 20% to \$10.0 million. Adjusted gross margin increased to 77% from 74%.
- Net loss narrowed 13% to \$1.5 million, which resulted in a loss of \$0.11 per basic and diluted share.
- Adjusted EBITDA increased 16% to \$1.5 million.
- Cash from operating activities increased 123% to \$4.4 million.
- Cash and cash equivalents were \$31.8 million as of December 31, 2022.

Full Year Financial Results

For the year ended December 31, 2022 as compared to the year ended December 31, 2021:

- Total revenue increased 21% to \$53.3 million. Platform revenue increased 22% to \$52.0 million. Services revenue decreased 16% to \$1.3 million.
- Gross profit increased 25% to \$34.7 million. Gross margin increased to 65% from 63%.
- Adjusted gross profit increased 25% to \$41.1 million. Adjusted gross margin increased to 77% from 75%.
- Net income was \$0.6 million, which resulted in \$0.04 per basic and diluted share, compared to net income of \$0.7 million (inclusive of a one-time gain of \$2.2 million on the extinguishment of debt from the forgiveness of the CARES Act Loan).
- Adjusted EBITDA increased 18% to \$12.9 million.
- Cash from operating activities increased 39% to \$12.5 million.

Platform revenue consists of both contractual and transactional revenue generated from our technology platform, CORE. It includes all revenue generated through our idiCORE and FOREWARN solutions. The cost of platform revenue, which consists primarily of data acquisition costs, remains relatively fixed irrespective of revenue generation. Services revenue consists of revenue generated from our idiVERIFIED service, which is an ancillary collections market offering that is purely transactional and of a lower margin profile. The cost of services revenue, which consists primarily of third-party servicer costs, is variable.

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, adjusted gross margin and free cash flow ("FCF"). Adjusted EBITDA is a financial measure equal to net (loss) income, the most directly comparable financial measure based on US GAAP, excluding interest (income) expense, net, income tax (benefit) 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. We define FCF as net cash provided by operating activities reduced by purchase of property and equipment and capitalized costs included in intangible assets.

(In thousands)	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Net (loss) income	\$ (1,544)	\$ (1,784)	\$ 616	\$ 655
Interest (income) expense, net	(225)	(1)	(351)	7
Income tax (benefit) expense	(148)	198	96	198
Depreciation and amortization	1,815	1,466	6,675	5,399
Share-based compensation expense	1,439	1,418	5,505	6,615
Gain on extinguishment of debt	-	-	-	(2,175)
Litigation costs	4	-	132	126
Write-off of long-lived assets and others	171	9	178	104
Adjusted EBITDA	\$ 1,512	\$ 1,306	\$ 12,851	\$ 10,929
Revenue	\$ 13,069	\$ 11,258	\$ 53,318	\$ 44,022
Net income margin	(12%)	(16%)	1%	1%
Adjusted EBITDA margin	12%	12%	24%	25%

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

(In thousands)	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Revenue	\$ 13,069	\$ 11,258	\$ 53,318	\$ 44,022
Cost of revenue (exclusive of depreciation and amortization)	(3,054)	(2,927)	(12,211)	(11,195)
Depreciation and amortization of intangible assets	(1,758)	(1,407)	(6,440)	(5,170)
Gross profit	8,257	6,924	34,667	27,657
Depreciation and amortization of intangible assets	1,758	1,407	6,440	5,170
Adjusted gross profit	\$ 10,015	\$ 8,331	\$ 41,107	\$ 32,827
Gross margin	63%	62%	65%	63%
Adjusted gross margin	77%	74%	77%	75%

The following is a reconciliation of net cash provided by operating activities, the most directly comparable US GAAP measure, to FCF:

(In thousands)	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Net cash provided by operating activities	\$ 4,359	\$ 1,951	\$ 12,459	\$ 8,948
Less:				
Purchase of property and equipment	(102)	(57)	(373)	(280)
Capitalized costs included in intangible assets	(2,317)	(1,415)	(8,456)	(4,964)
Free cash flow	<u>\$ 1,940</u>	<u>\$ 479</u>	<u>\$ 3,630</u>	<u>\$ 3,704</u>

In order to assist readers of our 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, adjusted gross margin and FCF 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, adjusted gross margin and FCF 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'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. We believe FCF is an important liquidity measure of the cash that is available, after capital expenditures, for operational expenses and investment in our business. FCF is a measure used by management to understand and evaluate the business's operating performance and trends over time. FCF is calculated by using net cash provided by operating activities, less purchase of property and equipment and capitalized costs included in intangible assets.

Adjusted EBITDA, adjusted EBITDA margin, adjusted gross profit, adjusted gross margin and FCF 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 US GAAP. In addition, FCF is not intended to represent our residual cash flow available for discretionary expenses and is not necessarily a measure of our ability to fund our cash needs. The way we measure adjusted EBITDA, adjusted EBITDA margin, adjusted gross profit, adjusted gross margin and FCF 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.

Quarterly Financial Data (unaudited)

The following tables set forth the Company's unaudited quarterly consolidated statements of operations data and reconciliations of certain directly comparable US GAAP financial measures to non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA margin, adjusted gross profit, adjusted gross margin, and FCF for each of the eight quarters in the two-year period ended December 31, 2022. The Company has prepared the quarterly unaudited consolidated statements of operations data on a basis consistent with the audited consolidated financial statements included elsewhere in this 2022 Form 10-K. In the opinion of management, the financial information in these tables reflects all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of this data. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this 2022 Form 10-K. The results of historical periods are not necessarily indicative of the results for any future period.

(In thousands, except share data) (Unaudited)	Three Months Ended							
	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022	12/31/2022
Revenue	\$ 10,217	\$ 10,879	\$ 11,668	\$ 11,258	\$ 12,729	\$ 12,494	\$ 15,026	\$ 13,069
Costs and expenses:								
Cost of revenue (exclusive of depreciation and amortization)	2,761	2,720	2,787	2,927	3,170	2,920	3,067	3,054
Sales and marketing expenses	2,221	2,349	2,154	2,208	2,391	2,822	2,623	2,998
General and administrative expenses	4,550	4,890	4,127	6,244	5,353	5,300	5,465	7,119
Depreciation and amortization	1,258	1,330	1,345	1,466	1,534	1,613	1,713	1,815
Total costs and expenses	10,790	11,289	10,413	12,845	12,448	12,655	12,868	14,986
(Loss) income from operations	(573)	(410)	1,255	(1,587)	281	(161)	2,158	(1,917)
Interest (expense) income, net	(5)	(4)	1	1	1	-	125	225
Gain on extinguishment of debt	-	2,175	-	-	-	-	-	-
(Loss) income before income taxes	(578)	1,761	1,256	(1,586)	282	(161)	2,283	(1,692)
Income tax expense (benefit)	-	-	-	198	175	44	25	(148)
Net (loss) income	\$ (578)	\$ 1,761	\$ 1,256	\$ (1,784)	\$ 107	\$ (205)	\$ 2,258	\$ (1,544)
(Loss) earnings per share:								
Basic	\$ (0.05)	\$ 0.14	\$ 0.10	\$ (0.14)	\$ 0.01	\$ (0.01)	\$ 0.16	\$ (0.11)
Diluted	\$ (0.05)	\$ 0.13	\$ 0.09	\$ (0.14)	\$ 0.01	\$ (0.01)	\$ 0.16	\$ (0.11)
Weighted average number of shares outstanding:								
Basic	12,207,193	12,269,412	12,741,723	13,158,638	13,543,607	13,776,479	13,748,587	13,964,010
Diluted	12,207,193	13,560,714	13,645,208	13,158,638	14,047,635	13,776,479	13,764,262	13,964,010
	Three Months Ended							
(In thousands) (Unaudited)	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022	12/31/2022
Net (loss) income	\$ (578)	\$ 1,761	\$ 1,256	\$ (1,784)	\$ 107	\$ (205)	\$ 2,258	\$ (1,544)
Interest expense (income), net	5	4	(1)	(1)	(1)	-	(125)	(225)
Income tax expense (benefit)	-	-	-	198	175	44	25	(148)
Depreciation and amortization	1,258	1,330	1,345	1,466	1,534	1,613	1,713	1,815
Share-based compensation expense	2,046	2,165	986	1,418	1,387	1,406	1,273	1,439
Gain on extinguishment of debt	-	(2,175)	-	-	-	-	-	-
Litigation costs	120	6	-	-	15	76	37	4
Write-off of long-lived assets and others	20	41	34	9	3	-	4	171
Adjusted EBITDA	\$ 2,871	\$ 3,132	\$ 3,620	\$ 1,306	\$ 3,220	\$ 2,934	\$ 5,185	\$ 1,512
Revenue	\$ 10,217	\$ 10,879	\$ 11,668	\$ 11,258	\$ 12,729	\$ 12,494	\$ 15,026	\$ 13,069
Net (loss) income margin	(6%)	16%	11%	(16%)	1%	(2%)	15%	(12%)
Adjusted EBITDA margin	28%	29%	31%	12%	25%	23%	35%	12%
	Three Months Ended							
(In thousands) (Unaudited)	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022	12/31/2022
Revenue	\$ 10,217	\$ 10,879	\$ 11,668	\$ 11,258	\$ 12,729	\$ 12,494	\$ 15,026	\$ 13,069
Cost of revenue (exclusive of depreciation and amortization)	(2,761)	(2,720)	(2,787)	(2,927)	(3,170)	(2,920)	(3,067)	(3,054)
Depreciation and amortization of intangible assets	(1,203)	(1,272)	(1,288)	(1,407)	(1,472)	(1,551)	(1,659)	(1,758)
Gross profit	6,253	6,887	7,593	6,924	8,087	8,023	10,300	8,257
Depreciation and amortization of intangible assets	1,203	1,272	1,288	1,407	1,472	1,551	1,659	1,758
Adjusted gross profit	\$ 7,456	\$ 8,159	\$ 8,881	\$ 8,331	\$ 9,559	\$ 9,574	\$ 11,959	\$ 10,015
Gross margin	61%	63%	65%	62%	64%	64%	69%	63%
Adjusted gross margin	73%	75%	76%	74%	75%	77%	80%	77%
	Three Months Ended							
(In thousands) (Unaudited)	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022	12/31/2022
Net cash provided by operating activities	\$ 1,232	\$ 2,301	\$ 3,464	\$ 1,951	\$ 2,430	\$ 2,525	\$ 3,145	\$ 4,359
Less:								
Purchase of property and equipment	(46)	(109)	(68)	(57)	(113)	(108)	(50)	(102)
Capitalized costs included in intangible assets	(1,247)	(1,173)	(1,129)	(1,415)	(1,794)	(2,099)	(2,246)	(2,317)
Free cash flow	\$ (61)	\$ 1,019	\$ 2,267	\$ 479	\$ 523	\$ 318	\$ 849	\$ 1,940

Results of Operations

Year ended December 31, 2022 compared to year ended December 31, 2021

Revenue. Revenue increased \$9.3 million or 21% to \$53.3 million for the year ended December 31, 2022 from \$44.0 million for the year ended December 31, 2021. Revenue from new customers increased \$1.4 million or 37%, base revenue from existing customers increased \$7.3 million or 21%, and growth revenue from existing customers increased \$0.6 million or 10%. Our IDI billable customer base grew from 6,548 customers as of December 31, 2021 to 7,021 customers as of December 31, 2022, and our FOREWARN user base grew from 82,419 users to 116,960 users during that same period. 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. 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. 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.

Cost of revenue (exclusive of depreciation and amortization). Cost of revenue increased \$1.0 million or 9% to \$12.2 million for the year ended December 31, 2022 from \$11.2 million for the year ended December 31, 2021. Our cost of revenue primarily includes data acquisition costs. Data acquisition costs consist primarily of the costs to acquire data either on a transactional basis or through flat-fee data licensing agreements, including unlimited usage agreements. We continue to enhance the breadth and depth of our data through the addition and expansion of relationships with key data suppliers, including our largest data supplier, which accounted for 49% of our total data acquisition costs for the years ended December 31, 2022 and 2021. Other cost of revenue items include expenses related to third-party infrastructure fees.

As the construct of our data costs is primarily a flat-fee, unlimited usage model, the cost of revenue as a percentage of revenue decreased to 23% for the year ended December 31, 2022 from 25% for the year ended December 31, 2021. We expect that cost of revenue as a percentage of revenue will continue to decrease over the coming years as our revenue increases. Historically, at scale, the industry business model's cost of revenue will trend between 15% and 30% as a percentage of revenue.

Sales and marketing expenses. Sales and marketing expenses increased \$1.9 million or 21% to \$10.8 million for the year ended December 31, 2022 from \$8.9 million for the year ended December 31, 2021. Sales and marketing expenses consist of salaries and benefits, advertising and marketing, travel expenses, and share-based compensation expense, incurred by our sales team, and provision for bad debts. The increase during the year ended December 31, 2022 was primarily attributable to an increase of \$1.7 million in salaries and benefits, and sales commissions, resulting from increased revenue.

General and administrative expenses. General and administrative expenses increased \$3.4 million or 17% to \$23.2 million for the year ended December 31, 2022 from \$19.8 million for the year ended December 31, 2021. For the years ended December 31, 2022 and 2021, our general and administrative expenses consisted primarily of employee salaries and benefits of \$11.8 million and \$8.4 million, share-based compensation expense of \$5.2 million and \$6.1 million, and professional fees of \$3.7 million and \$3.2 million, respectively.

Depreciation and amortization. Depreciation and amortization expenses increased \$1.3 million or 24% to \$6.7 million for the year ended December 31, 2022 from \$5.4 million for the year ended December 31, 2021. The increase in depreciation and amortization for the year ended December 31, 2022 resulted primarily from the amortization of software developed for internal use that became ready for its intended use after December 31, 2021.

Gain on extinguishment of debt. On May 5, 2020, we received the CARES Act Loan in the principal amount of \$2.2 million. On June 16, 2021, we received a notice from the Lender that the full principal amount of the CARES Act Loan and its accrued interest had been fully forgiven, resulting in a gain on extinguishment of debt of \$2.2 million during the year ended December 31, 2021.

Income before income taxes. Income before income taxes was \$0.7 million for the year ended December 31, 2022 compared to \$0.9 million, inclusive of a one-time gain of \$2.2 million on the extinguishment of debt from the forgiveness of the CARES Act Loan, for the year ended December 31, 2021. The significant improvement in income before income taxes to \$0.7 million for the year ended December 31, 2022 from a loss of \$1.3 million, exclusive of the one-time gain on extinguishment of debt, for the year ended December 31, 2021, was primarily attributable to the increase in revenue, decrease in our cost of revenue as a percentage of revenue, and decrease in share-based compensation expense, which was partially offset by the increase in employee salaries and benefits and sales commissions of \$5.1 million, and depreciation and amortization of \$1.3 million.

Income taxes. Income tax expense of \$0.1 million and \$0.2 million was recognized for the years ended December 31, 2022 and 2021, respectively. A valuation allowance on the deferred tax assets was recognized as of December 31, 2022 and 2021, to reduce the deferred tax assets to the amount that is more likely than not to be realized. See Note 8, “Income Taxes,” included in “Notes to Consolidated Financial Statements.”

Net income. Net income was \$0.6 million for the year ended December 31, 2022 compared to \$0.7 million, inclusive of a one-time gain of \$2.2 million on the extinguishment of debt from the forgiveness of the CARES Act Loan, for the year ended December 31, 2021, as a result of the foregoing.

Effect of Inflation

We believe the persistent inflationary pressure throughout 2022 has contributed to deteriorating macroeconomic conditions and increased recession fears, causing businesses to slow their spending over the last several months, which have resulted in, and may continue to result, in fluctuations in volumes, pricing and operating margins for our services. Also, higher interest rates imposed to combat inflation, may reduce the demand for credit, which may lead to a decline in the volume of services we provide to our customers in the banking or financial industry, or other industries that are affected by these types of disruptions. However, the rates of inflation experienced in recent years have had no material impact on our financial statements as we have attempted to recover increased costs by increasing prices for our services, to the extent permitted by contracts and competition.

Liquidity and Capital Resources

Cash flows provided by operating activities. For the year ended December 31, 2022, net cash provided by operating activities was \$12.5 million, primarily the result of the net income of \$0.6 million, adjusted for certain non-cash items (consisting of share-based compensation expense, depreciation and amortization, write-off of long-lived assets, provision for bad debts, noncash lease expenses, and deferred income tax expense) totaling \$13.2 million, and the cash used as a result of changes in assets and liabilities of \$1.3 million, primarily the result of the increase in accounts receivable and other noncurrent assets, and the decrease in operating lease liabilities, which was offset by the increase in accounts payable and accrued expenses and other current liabilities. For the year ended December 31, 2021, net cash provided by operating activities was \$8.9 million, primarily the result of the net income of \$0.7 million, adjusted for certain non-cash items (consisting of share-based compensation expense, depreciation and amortization, write-off of long-lived assets, provision for bad debts, noncash lease expenses, gain on extinguishment of debt, and deferred income tax expense) totaling \$10.7 million, and the cash used as a result of changes in assets and liabilities of \$2.4 million, primarily the result of the increase in accounts receivable, and the decrease in accounts payable, accrued expenses and other current liabilities, and operating lease liabilities.

Cash flows used in investing activities. For the years ended December 31, 2022 and 2021, net cash used in investing activities was \$8.8 million and \$5.2 million, respectively, primarily as a result of capitalized costs included in intangible assets.

Cash flows (used in) provided by financing activities. For the year ended December 31, 2022, net cash used in financing activities was \$6.1 million, mainly the result of \$5.2 million in taxes paid related to the net share settlement of vesting of RSUs during the year and \$0.9 million paid in aggregate for the repurchase of common stock pursuant to the Stock Repurchase Program that the board of directors authorized on May 4, 2022, authorizing the repurchase of up to \$5.0 million of our common stock. For the year ended December 31, 2021, net cash provided by financing activities was \$17.6 million, mainly the result of the net proceeds of \$20.9 million in a registered direct offering on November 19, 2021, offset by \$3.3 million in taxes paid related to the net share settlement of vesting of RSUs during the year.

As of December 31, 2022, we had material commitments under certain data licensing agreements of \$27.2 million. We anticipate funding our operations using available cash and cash flow generated from operations within the next twelve months.

We reported net income of \$0.6 million and \$0.7 million for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, we had a total shareholders’ equity balance of \$71.1 million.

As of December 31, 2022, we had cash and cash equivalents of \$31.8 million. Based on projections of growth in revenue and operating results in the next twelve months, and the available cash and cash equivalents held by us, we believe that we will have sufficient cash resources to finance our operations and expected capital expenditures for the next twelve months.

Subject to revenue growth and our ability to generate positive cash flow, we may have to raise capital through the issuance of additional equity and/or debt, which, if we are able to obtain, could have the effect of diluting stockholders. Any equity or debt financings, if available at all, may be on terms which are not favorable to us.

Off-Balance Sheet Arrangements

We do not have any outstanding off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. In addition, we do not engage in trading activities involving non-exchange traded contracts. In our ongoing business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This 2022 Form 10-K contains certain “forward-looking statements” within the meaning of the PSLRA, Section 27A of the Securities Act, and Section 21E of the Exchange Act. Such forward-looking statements contain information about our expectations, beliefs or intentions regarding our product development and commercialization efforts, business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results as of the date they are made. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements.

Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include the following:

- Our products and services are highly technical and if they contain undetected errors, our business could be adversely affected and we may have to defend lawsuits or pay damages in connection with any alleged or actual failure of our products and services.
- If we fail to respond to rapid technological changes in the data and analytics sector, we may lose customers and/or our products and/or services may become obsolete.
- Because our networks and information technology systems are critical to our success, if unauthorized persons access our systems or our systems otherwise cease to function properly, our operations could be adversely affected and we could lose revenue or proprietary information, all of which could materially adversely affect our business.
- Data security and integrity are critically important to our business, and breaches of security, unauthorized access to or disclosure of confidential information, disruption, including distributed denial of service (“DDoS”) attacks or the perception that confidential information is not secure, could result in a material loss of business, substantial legal liability or significant harm to our reputation.
- If we fail to maintain and improve our systems, our certifications, our technology, and our interfaces with data sources and customers, demand for our services could be adversely affected.
- Our business is subject to various governmental regulations, laws and orders, compliance with which may cause us to incur significant expenses or reduce the availability or effectiveness of our solutions, and the failure to comply with which could subject us to civil or criminal penalties or other liabilities.
- The outcome of litigation, inquiries, investigations, examinations or other legal proceedings in which we are involved, in which we may become involved, or in which our customers or competitors are involved could subject us to significant monetary damages or restrictions on our ability to do business.
- Our bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain actions, including derivative actions, which could limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company and its directors, officers, other employees, or the Company’s stockholders and may discourage lawsuits with respect to such claims.
- Our stock price has been and may continue to be volatile, and the value of an investment in our common stock may decline.
- Future issuances of shares of our common stock in connection with acquisitions or pursuant to our stock incentive plan could have a dilutive effect on your investment.

- The concentration of our stock ownership may limit individual stockholder ability to influence corporate matters.
- We are an “emerging growth company,” and we cannot be certain if the reduced reporting requirements available to emerging growth companies will make our shares of common stock less attractive to investors.
- We expect that we may need additional capital in the future; however, such capital may not be available to us on reasonable terms, if at all, when or as we require additional funding. If we issue additional shares of our common stock or other securities that may be convertible into, or exercisable or exchangeable for, our common stock, our existing stockholders would experience further dilution.
- We have a history of losses which makes our future results uncertain.
- The ongoing and developing Covid-19 pandemic or future pandemics may adversely impact our business, our future results of operations and our overall financial performance.
- Environmental issues, including any future reporting obligations in connection with environmental issues, may adversely impact our business and operations.
- We depend, in part, on strategic alliances and joint ventures to grow our business. If we are unable to develop and maintain these strategic alliances and joint ventures, our growth may be adversely affected.
- If we consummate any future acquisitions, we will be subject to the risks inherent in identifying, acquiring and operating a newly acquired business.
- Our relationships with key customers may be materially diminished or terminated.
- If we lose the services of key personnel, it could adversely affect our business.
- Our revenue is concentrated in the U.S. market across a broad range of industries. When these industries or the broader financial markets experience a downturn, demand for our services and revenue may be adversely affected.
- We could lose our access to data sources which could prevent us from providing our services.
- We must adequately protect our intellectual property in order to prevent loss of valuable proprietary information.
- We face intense competition from both start-up and established companies that may have significant advantages over us and our products.
- There may be further consolidation in our end-customer markets, which may adversely affect our revenue.
- To the extent the availability of free or relatively inexpensive consumer and/or business information increases, the demand for some of our services may decrease.
- If our newer products do not achieve market acceptance, revenue growth may suffer.
- Our products and services can have long sales and implementation cycles, which may result in substantial expenses before realizing any associated revenue.
- If our outside service providers and key vendors are not able to or do not fulfill their service obligations, our operations could be disrupted and our operating results could be harmed.
- Consolidation in the data and analytics sector may limit market acceptance of our products and services.
- We may incur substantial expenses defending against claims of infringement.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company as defined in Rule 12b-2 of the Exchange Act, we are not required to include information otherwise required by this item.

Item 8. Financial Statements and Supplementary Data.

Our Consolidated Financial Statements and the Notes thereto, together with the report thereon of our independent registered public accounting firm are filed as part of this report, beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2022. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Based on the evaluation of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act), the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2022.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) for the Company. Management, under the supervision of and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth by the Committee of Sponsoring Organizations (the "COSO") of the Treadway Commission in Internal Control-Integrated Framework (2013). Management concluded that the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) was effective as of December 31, 2022, based on criteria in Internal Control-Integrated Framework (2013) issued by the COSO.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the last fiscal quarter of 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures and Internal Control over Financial Reporting

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to the definitive proxy statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2022.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the definitive proxy statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2022.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the definitive proxy statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2022.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to the definitive proxy statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2022.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to the definitive proxy statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2022.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) List of documents filed as part of this report:

1. Financial Statements: The information required by this item is contained in Item 8 of this 2022 Form 10-K.
2. Financial Statement Schedules: The information required by this item is included in the consolidated financial statements contained in Item 8 of this 2022 Form 10-K.
3. Exhibits: The following exhibits are filed as part of, or incorporated by reference into, this 2022 Form 10-K.

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Separation and Distribution Agreement by and between Cogint, Inc. and Red Violet, Inc., dated February 27, 2018.	Form 10	001-38407	2.1	February 28, 2018	
3.1	Amended and Restated Certificate of Incorporation of Red Violet, Inc.	8-K	001-38407	3.1	March 27, 2018	
3.2	Amended and Restated Bylaws of Red Violet, Inc.	8-K	001-38407	3.2	March 27, 2018	
4.1	Description of Registrant's Securities.	10-K	001-38407	4.1	March 12, 2020	
10.1+	Form of Restricted Stock Unit Agreement Pursuant to the Red Violet, Inc. 2018 Stock Incentive Plan.	Form 10	001-38407	10.2	February 28, 2018	
10.2+	Employment Agreement, dated March 26, 2018, by and between Red Violet and Derek Dubner.	8-K	001-38407	10.2	March 27, 2018	
10.3+	Employment Agreement, dated March 26, 2018, by and between Red Violet and James Reilly.	8-K	001-38407	10.3	March 27, 2018	
10.4+	Employment Agreement, dated March 26, 2018, by and between Red Violet and Dan MacLachlan.	8-K	001-38407	10.4	March 27, 2018	
10.5+	Red Violet, Inc. 2018 Stock Incentive Plan.	8-K	001-38407	10.5	March 27, 2018	
10.6	Form of Indemnification Agreement.	8-K	001-38407	10.6	March 27, 2018	
10.7+	Executive Chairman Services Agreement, effective as of August 7, 2018, by and between Red Violet, Inc. and Michael Brauser.	10-Q	001-38407	10.1	August 8, 2018	
10.8+	Form of 2018 Time- and Performance-Based Restricted Stock Unit Award Agreement.	10-Q	001-38407	10.2	November 7, 2018	
10.9+	Employment Agreement between Red Violet, Inc. and Jeffrey Dell entered into on April 9, 2019.	10-Q	001-38407	10.1	August 5, 2019	
10.10+	Form of 2019 Time- and Performance-Based Restricted Stock Unit Award Agreement.	10-K	001-38407	10.13	March 12, 2020	
10.11+	Amendment to Red Violet, Inc. 2018 Stock Incentive Plan.	8-K	001-38407	10.1	June 4, 2020	
10.12+	Separation Agreement dated February 16, 2021 by and between Red Violet, Inc. and Michael Brauser.	8-K	001-38407	10.1	February 17, 2021	
10.13+	First Amendment to Employment Agreement dated November 9, 2020 by and between Red Violet, Inc. and Derek Dubner.	10-K	001-38407	10.15	March 10, 2021	
10.14+	First Amendment to Employment Agreement dated November 9, 2020 by and between Red Violet, Inc. and James Reilly.	10-K	001-38407	10.16	March 10, 2021	
10.15+	First Amendment to Employment Agreement dated November 9, 2020 by and between Red Violet, Inc. and Daniel MacLachlan.	10-K	001-38407	10.17	March 10, 2021	
10.16+	First Amendment to Employment Agreement dated November 9, 2020 by and between Red Violet, Inc. and Jeffrey Dell.	10-K	001-38407	10.18	March 10, 2021	
10.17	Form of Securities Purchase Agreement, dated as of November 19, 2021.	8-K	001-38407	10.1	November 19, 2021	
10.18+	Amendment to Red Violet, Inc. 2018 Stock Incentive Plan.	8-K	001-38407	10.1	May 26, 2022	
21.1	Subsidiaries of Red Violet, Inc.					X
23.1	Consent of Grant Thornton LLP.					X
31.1	Certification of Chief Executive Officer filed pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

31.2	Certification of Chief Financial Officer filed pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1*	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2*	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
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.	X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).	X

+ Management contract or compensatory plan or arrangement.

* This certification is deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

Item 16. Form 10-K Summary.

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. The Company has elected not to include such summary information.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

March 8, 2023

RED VIOLET, INC.

By: /s/ Derek Dubner
Derek Dubner
Chief Executive Officer

By: /s/ Daniel MacLachlan
Daniel MacLachlan
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Derek Dubner</u> Derek Dubner	Chief Executive Officer and Chairman (Principal Executive Officer)	March 8, 2023
<u>/s/ Daniel MacLachlan</u> Daniel MacLachlan	Chief Financial Officer (Principal Financial and Accounting Officer)	March 8, 2023
<u>/s/ Peter Benz</u> Peter Benz	Director	March 8, 2023
<u>/s/ Steven D. Rubin</u> Steven D. Rubin	Director	March 8, 2023
<u>/s/ Robert Swayman</u> Robert Swayman	Director	March 8, 2023
<u>/s/ Lisa Stanton</u> Lisa Stanton	Director	March 8, 2023

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Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements

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<u>Report of independent registered public accounting firm (PCAOB ID number: 248)</u>	F-2
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<u>Consolidated statements of operations for the years ended December 31, 2022 and 2021</u>	F-4
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Red Violet, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Red Violet, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of operations, changes in shareholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2017.

Fort Lauderdale, Florida
March 8, 2023

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

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>ASSETS:</u>		
Current assets:		
Cash and cash equivalents	\$ 31,810	\$ 34,258
Accounts receivable, net of allowance for doubtful accounts of \$60 and \$28 as of December 31, 2022 and 2021, respectively	5,535	3,736
Prepaid expenses and other current assets	771	599
Total current assets	<u>38,116</u>	<u>38,593</u>
Property and equipment, net	709	577
Intangible assets, net	31,647	28,181
Goodwill	5,227	5,227
Right-of-use assets	1,114	1,661
Other noncurrent assets	601	137
Total assets	<u>\$ 77,414</u>	<u>\$ 74,376</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY:</u>		
Current liabilities:		
Accounts payable	\$ 2,229	\$ 1,605
Accrued expenses and other current liabilities	1,845	395
Current portion of operating lease liabilities	692	617
Deferred revenue	670	841
Total current liabilities	<u>5,436</u>	<u>3,458</u>
Noncurrent operating lease liabilities	598	1,291
Deferred tax liabilities	287	198
Total liabilities	<u>6,321</u>	<u>4,947</u>
Shareholders' equity:		
Preferred stock—\$0.001 par value, 10,000,000 shares authorized, and 0 shares issued and outstanding, as of December 31, 2022 and 2021	-	-
Common stock—\$0.001 par value, 200,000,000 shares authorized, 13,956,404 and 13,488,540 shares issued and outstanding, as of December 31, 2022 and 2021	14	13
Additional paid-in capital	92,481	91,434
Accumulated deficit	<u>(21,402)</u>	<u>(22,018)</u>
Total shareholders' equity	<u>71,093</u>	<u>69,429</u>
Total liabilities and shareholders' equity	<u>\$ 77,414</u>	<u>\$ 74,376</u>

See notes to consolidated financial statements

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

	Year Ended December 31,	
	2022	2021
Revenue	\$ 53,318	\$ 44,022
Costs and expenses:		
Cost of revenue (exclusive of depreciation and amortization)	12,211	11,195
Sales and marketing expenses	10,834	8,932
General and administrative expenses	23,237	19,811
Depreciation and amortization	6,675	5,399
Total costs and expenses	<u>52,957</u>	<u>45,337</u>
Income (loss) from operations	361	(1,315)
Interest income (expense), net	351	(7)
Gain on extinguishment of debt	-	2,175
Income before income taxes	<u>712</u>	<u>853</u>
Income tax expense	96	198
Net income	<u>\$ 616</u>	<u>\$ 655</u>
Earnings per share:		
Basic	<u>\$ 0.04</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.04</u>	<u>\$ 0.05</u>
Weighted average number of shares outstanding:		
Basic	<u>13,759,296</u>	<u>12,597,316</u>
Diluted	<u>14,107,144</u>	<u>13,403,041</u>

See notes to consolidated financial statements

RED VIOLET, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Amounts in thousands, except share data)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2020	12,167,327	\$ 13	-	\$ -	\$ 66,005	\$ (22,673)	\$ 43,345
Vesting of restricted stock units	911,698	-	-	-	-	-	-
Increase in treasury stock resulting from shares withheld to cover statutory taxes	-	-	(143,400)	(3,327)	-	-	(3,327)
Retirement of treasury stock	(143,400)	-	143,400	3,327	(3,327)	-	-
Issuance of common stock upon direct offering to certain investors, net of issuance costs of \$86	552,915	-	-	-	20,924	-	20,924
Share-based compensation	-	-	-	-	7,832	-	7,832
Net income	-	-	-	-	-	655	655
Balance at December 31, 2021	13,488,540	\$ 13	-	\$ -	\$ 91,434	\$ (22,018)	\$ 69,429
Vesting of restricted stock units	770,210	1	-	-	(1)	-	-
Increase in treasury stock resulting from shares withheld to cover statutory taxes	-	-	(252,346)	(5,200)	-	-	(5,200)
Common stock repurchased	-	-	(50,000)	(878)	-	-	(878)
Retirement of treasury stock	(302,346)	-	302,346	6,078	(6,078)	-	-
Share-based compensation	-	-	-	-	7,126	-	7,126
Net income	-	-	-	-	-	616	616
Balance at December 31, 2022	13,956,404	\$ 14	-	\$ -	\$ 92,481	\$ (21,402)	\$ 71,093

See notes to consolidated financial statements

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

	Year Ended December 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 616	\$ 655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,675	5,399
Share-based compensation expense	5,505	6,615
Write-off of long-lived assets	177	32
Provision for bad debts	174	95
Noncash lease expenses	547	500
Interest expense	-	11
Deferred income tax expense	89	198
Gain on extinguishment of debt	-	(2,175)
Changes in assets and liabilities:		
Accounts receivable	(1,973)	(630)
Prepaid expenses and other current assets	(172)	(18)
Other noncurrent assets	(464)	2
Accounts payable	624	(470)
Accrued expenses and other current liabilities	1,450	(1,051)
Deferred revenue	(171)	337
Operating lease liabilities	(618)	(552)
Net cash provided by operating activities	12,459	8,948
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(373)	(280)
Capitalized costs included in intangible assets	(8,456)	(4,964)
Net cash used in investing activities	(8,829)	(5,244)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of shares, net of issuance costs	-	20,924
Taxes paid related to net share settlement of vesting of restricted stock units	(5,200)	(3,327)
Repurchases of common stock	(878)	-
Net cash (used in) provided by financing activities	(6,078)	17,597
Net (decrease) increase in cash and cash equivalents	\$ (2,448)	\$ 21,301
Cash and cash equivalents at beginning of period	34,258	12,957
Cash and cash equivalents at end of period	\$ 31,810	\$ 34,258
SUPPLEMENTAL DISCLOSURE INFORMATION		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ 39	\$ -
Share-based compensation capitalized in intangible assets	\$ 1,621	\$ 1,217
Retirement of treasury stock	\$ 6,078	\$ 3,327

See notes to consolidated financial statements

RED VIOLET, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share data)

1. Principal activities

Red Violet, Inc. (“red violet,” or the “Company”), a Delaware corporation, is a software and services company building proprietary technologies and applying analytical capabilities to deliver identity intelligence. The Company’s technology powers critical solutions, which empower organizations to operate with confidence. The Company’s 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. The Company’s 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. The Company drives workflow efficiency and enables organizations to make better data-driven decisions.

Leveraging cloud-native proprietary technology and applying machine learning and advanced analytical capabilities, CORE provides essential solutions to public and private sector organizations through intuitive, easy-to-use analytical interfaces. With massive data assets consisting of public record, proprietary and publicly-available data, the Company’s differentiated information and innovative platform and solutions deliver identity intelligence – entities, relationships, affiliations, interactions, and events. The Company’s solutions are used today to enable frictionless commerce, to ensure safety, and to reduce fraud and the concomitant expense borne by society.

The Company has only one operating segment, as defined by Accounting Standards Codification ("ASC") 280, “*Segment Reporting*.”

2. Summary of significant accounting policies

(a) Basis of preparation and liquidity

The accompanying consolidated financial statements have been prepared by red violet in accordance with accounting principles generally accepted in the United States (“US GAAP”).

The Company reported net income of \$616 and \$655 for the years ended December 31, 2022 and 2021, respectively. Net cash provided by operating activities was \$12,459 and \$8,948 for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, the Company had an accumulated deficit of \$21,402.

As of December 31, 2022, the Company had available cash and cash equivalents of \$31,810, a decrease of \$2,448 from \$34,258 as of December 31, 2021. Based on this available cash and cash equivalents, and the projections of growth in revenue and operating results in the coming year, the Company believes that it will have sufficient cash resources to finance its operations and expected capital expenditures for the next twelve months from the date the financials are issued.

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant transactions among the Company and its subsidiaries have been eliminated upon consolidation.

(b) Use of estimates

The preparation of consolidated financial statements in accordance with US GAAP requires red violet’s management to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, useful lives of intangible assets, recoverability of the carrying amount of goodwill and intangible assets, share-based compensation and income tax provision. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from these estimates.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank deposits with original maturities of three months or less, which are unrestricted as to withdrawal and use.

The Company's cash and bank deposits were held in major financial institutions located in the United States, which management believes have high credit ratings. The cash and bank deposits held in the United States, denominated in USD, amounted to \$31,810 and \$34,258 as of December 31, 2022 and 2021, respectively.

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist principally of cash investments. The Company places its temporary cash instruments with well-known financial institutions within the United States, and, at times, may maintain balances in United States banks in excess of the \$250 US Federal Deposit Insurance Corporation insurance limit. The Company monitors the credit ratings of the financial institutions to mitigate this risk.

(d) Accounts receivable

Accounts receivable are due from customers and are generally unsecured, which consist of amounts earned but not yet collected. None of the Company's accounts receivable bear interest. In some arrangements, a right to consideration for the Company's performance under the customer contract may occur before invoicing to the customer, resulting in an unbilled accounts receivable. As of December 31, 2022, the current and noncurrent portion unbilled accounts receivable of \$923 and \$464, respectively, were included within accounts receivable and other noncurrent assets, respectively, on the consolidated balance sheets. There was no unbilled accounts receivable as of December 31, 2021.

The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Management determines the allowance based on reviews of various factors, including historical experience, the age of the accounts receivable balance, customer-specific facts, economic conditions, and other factors that may affect the Company's ability to collect from customers. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers. The amount of the allowance for doubtful accounts was \$60 and \$28 as of December 31, 2022 and 2021, respectively, which was included within accounts receivable, net, on the consolidated balance sheets.

(e) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation or amortization. Expenditures for maintenance, repairs, and minor renewals are charged to expense in the period incurred. Betterments and additions are capitalized. Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease terms that are reasonably assured. The estimated useful lives of property and equipment are as follows:

Computer and network equipment	5-7 years
Furniture, fixtures and office equipment	5 years
Leasehold improvements	7 years

When items of property and equipment are retired or otherwise disposed of, loss/income is charged or credited for the difference between the net book value and proceeds received thereon.

(f) Intangible assets other than goodwill

The Company's intangible assets are initially recorded at the capitalized actual costs incurred, their acquisition cost, or fair value if acquired as part of a business combination, and amortized on a straight-line basis over their respective estimated useful lives, which are the periods over which the assets are expected to contribute directly or indirectly to the future cash flows of the Company. The Company's intangible assets represent software developed for internal use. Intangible assets have estimated useful lives of 5-10 years.

In accordance with ASC 350-40, "*Software — Internal use software*," the Company capitalizes eligible costs, including salaries and staff benefits, share-based compensation expense, travel expenses incurred by relevant employees, and other relevant costs of developing internal-use software that are incurred in the application development stage when developing or obtaining software for internal use. Once the software developed for internal use is ready for its intended use, it is amortized on a straight-line basis over its useful life.

(g) Goodwill

Goodwill represents the cost in excess of the fair value of the net assets acquired in a business combination. As of December 31, 2022 and 2021, the balance of goodwill of \$5,227 was as a result of the acquisition of Interactive Data, LLC ("Interactive Data"), a wholly-owned subsidiary of red violet, effective on October 2, 2014.

In accordance with ASC 350, *"Intangibles - Goodwill and Other,"* goodwill is tested at least annually for impairment, or when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, by assessing qualitative factors or performing a quantitative analysis in determining whether it is more likely than not that its fair value exceeds the carrying value. A quantitative step one assessment involves determining the fair value of each reporting unit using market participant assumptions. Should an impairment exist, the Company would recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit.

The measurement date of the Company's annual goodwill impairment test is October 1. On October 1, 2022 and 2021, the Company performed qualitative assessments on the reporting unit and, based on this assessment, no events have occurred to indicate that it is more likely than not that the fair value of the reporting unit is less than its carry amount. The Company did not record a goodwill impairment loss during the years ended December 31, 2022 and 2021, and as of December 31, 2022, there was no accumulated goodwill impairment loss.

For purposes of reviewing impairment and the recoverability of goodwill, the Company must make various assumptions regarding estimated future cash flows and other factors in determining the fair values, including market multiples, discount rates, etc.

(h) Impairment of long-lived assets

Finite-lived intangible assets are amortized over their respective useful lives and, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with ASC 360-10-15, *"Impairment or Disposal of Long-Lived Assets."* In evaluating long-lived assets for recoverability, including finite-lived intangibles and property and equipment, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with ASC 360-10-15. To the extent that estimated future undiscounted cash inflows attributable to the asset, less estimated future undiscounted cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

Asset recoverability is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the undiscounted future cash flows. In calculating the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters such as revenue growth rates, gross margin percentages and terminal growth rates.

The Company did not record an impairment loss of long-lived assets during the years ended December 31, 2022 and 2021.

(i) Fair value of financial instruments

ASC 820, *"Fair Value Measurements and Disclosures,"* establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

- Level 1 – defined as observable inputs such as quoted prices in active markets;
- Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 – defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value of the Company's cash and cash equivalents, receivables and payables approximate their carrying amount because of the short-term nature of these instruments. The fair value of the noncurrent portion of unbilled accounts receivable included in other noncurrent assets approximates its carrying amount.

(j) Revenue recognition

The Company recognized revenue in accordance with ASC 606, *"Revenue from Contracts with Customers"* ("Topic 606"). Under this standard, revenue is recognized when control of goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company's performance obligation is to provide on demand information and identity intelligence solutions to its customers by leveraging its proprietary technology and applying machine learning and advanced analytics to its massive data repository. The pricing for the customer contracts is based on usage, a monthly fee, or a combination of both.

Revenue is generally recognized on (a) a transactional basis determined by the customers' usage, (b) a monthly fee or (c) a combination of both. Revenue pursuant to transactions determined by the customers' usage is recognized when the transaction is complete, and either party may terminate the transactional agreement at any time. Revenue pursuant to contracts containing a monthly fee is considered to be a single performance obligation consisting of a series of distinct services, and is recognized ratably over the contract period, which is generally 12 months, and the contract shall automatically renew for additional, successive 12-month terms unless written notice of intent not to renew is provided by one party to the other at least 30 days or 60 days prior to the expiration of the then current term. Variable fees are allocated to each distinct month in the series for which they are earned. The Company's revenue is recorded net of applicable sales taxes billed to customers.

Available within Topic 606, the Company has applied the portfolio approach practical expedient in accounting for customer revenue as one collective group, rather than individual contracts. Based on the Company's historical knowledge of the contracts contained in this portfolio and the similar nature and characteristics of the customers, the Company has concluded the financial statement effects are not materially different than if accounting for revenue on a contract by contract basis.

Revenue is recognized over a period of time. The Company's customers simultaneously receive and consume the benefits provided by the Company's performance as and when provided. Furthermore, the Company has elected the "right to invoice" practical expedient, available within Topic 606, as its measure of progress, since it has a right to payment from a customer in an amount that corresponds directly with the value of its performance completed-to-date. In some arrangements, a right to consideration for the Company's performance under the customer contract may occur before invoicing to the customer. The Company's revenue arrangements do not contain significant financing components.

For the years ended December 31, 2022 and 2021, 75% and 80% of total revenue was attributable to customers with pricing contracts, respectively, versus 25% and 20% attributable to transactional customers, respectively. Pricing contracts are generally annual contracts or longer, with auto renewal.

If a customer pays consideration before the Company transfers services to the customer, those amounts are classified as deferred revenue. As of December 31, 2022 and 2021, the balance of deferred revenue was \$670 and \$841 respectively, all of which is expected to be realized in the next 12 months. In relation to the deferred revenue balance as of December 31, 2021, \$841 was recognized into revenue during the year ended December 31, 2022.

As of December 31, 2022, \$8,017 of revenue is expected to be recognized in the future for performance obligations that are unsatisfied or partially unsatisfied, related to pricing contracts that have a term of more than 12 months, of which \$5,971 of revenue will be recognized in 2023, \$1,838 in 2024, and \$208 in 2025. The actual timing of recognition may vary due to factors outside of the Company's control. The Company excludes variable consideration related entirely to wholly unsatisfied performance obligations and contracts and recognizes such variable consideration based upon the right to invoice the customer.

Sales commissions are incurred and recorded on an ongoing basis over the term of the customer relationship. These costs are recorded in sales and marketing expenses.

In addition, the Company elected the practical expedient to not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

(k) Cost of revenue (exclusive of depreciation and amortization)

The Company's cost of revenue primarily includes data acquisition costs and other cost of revenue. Data acquisition costs consist primarily of the costs to acquire data either on a transactional basis or through flat-fee data licensing agreements, including unlimited usage agreements. Data acquisition costs are recognized based on a straight-line amortization method. Other cost of revenue includes expenses related to third-party infrastructure fees.

(l) Advertising and promotion costs

Advertising and promotion costs are charged to operations as incurred. Advertising and promotion costs, included in sales and marketing expenses amounted to \$261 and \$97 for the years ended December 31, 2022 and 2021, respectively.

(m) Share-based compensation

The Company accounts for share-based compensation to employees in accordance with ASC 718, "*Compensation—Stock Compensation.*" Under ASC 718, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and, for those awards subject only to service conditions, the Company recognizes the costs on a straight-line basis over the requisite service period for the entire award the employee is required to provide service in exchange for the award, which generally is the vesting period. For awards with performance and service conditions, we begin recording share-based compensation when achieving the performance criteria is probable and we recognize the costs using the accelerated attribution method.

The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amount will be recorded as a cumulative adjustment in the period estimates are revised. Changes in the Company's estimates and assumptions may cause us to realize material changes in share-based compensation expense in the future.

The Company has issued share-based awards with performance-based vesting criteria. Achievement of the milestones must be probable before the Company begins recording share-based compensation expense. When the performance-based vesting criteria is considered probable, the Company begins to recognize compensation expense at that time. In the period that achievement of the performance-based criteria is deemed probable, US GAAP requires the immediate recognition of all previously unrecognized compensation since the original grant date. As a result, compensation expense recorded in the period that achievement is deemed probable could include a substantial amount of previously unrecorded compensation expense related to the prior periods. For any share-based awards where performance-based vesting criteria is no longer considered probable, previously recognized compensation cost would be reversed. As of December 31, 2022, the Company has achieved the performance-based criteria for all share-based awards with performance-based vesting criteria, except for the Criteria Four award, as defined in Note 10.

The Company applies Accounting Standards Update 2018-07, "*Improvements to Nonemployee Share-Based Payment Accounting,*" which generally expands the scope of ASC 718, "*Compensation – Stock Compensation,*" to include share-based payment transactions for acquiring goods and services from nonemployees and supersedes the guidance in ASC 505-50, "*Equity-Based Payments to Non-employees,*" which previously included the accounting for nonemployee awards.

(n) Income taxes

The Company accounts for income taxes in accordance with ASC 740, "*Income Taxes,*" which requires the use of the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates or laws is recognized in income in the period that the change in tax rates or laws is enacted. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

ASC 740 clarifies the accounting for uncertain tax positions. This interpretation requires that an entity recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company's accounting policy is to accrue interest and penalties related to uncertain tax positions, if and when required, as interest expense and a component of other expenses, respectively, in the consolidated statements of operations.

(o) Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the periods. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and is calculated using the treasury stock method for stock options and unvested shares. Common equivalent shares are excluded from the calculation in the loss periods as their effects would be anti-dilutive.

(p) Contingencies

In the ordinary course of business, the Company is subject to loss contingencies that cover a wide range of matters. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued, the Company evaluates, among other factors, the degree of probability and the ability to make a reasonable estimate of the amount of loss.

(q) Significant concentrations and risks

Concentration of credit risk

Assets that potentially subject the Company to significant concentration of credit risk primarily consist of cash and cash equivalents, and accounts receivable. As of December 31, 2022 and 2021, all of the Company's cash and cash equivalents were deposited in financial institutions located in the United States, which management believes are of high credit quality. Accounts receivable are typically unsecured and are derived from revenue earned from customers. The risk with respect to accounts receivable is mitigated by credit evaluations the Company performs on its customers and its ongoing monitoring process of outstanding balances.

Concentration of customers

For the years ended December 31, 2022 and 2021, no individual customer accounted for more than 10% of the total revenue.

As of December 31, 2022, one individual customer accounted for 11% of the Company's accounts receivable, net. As of December 31, 2021, no individual customer accounted for more than 10% of the Company's accounts receivable, net.

Concentration of suppliers

The Company's products and services depend extensively upon continued access to and receipt of data from external sources, including data received from the major credit bureaus, including the Company's largest data supplier. The Company's other data suppliers include strategic partners, as well as various government and public records databases. The Company's largest data supplier, with whom the Company has expanded its relationship while securing what it believes to be favorable business terms over the years, accounted for 49% of the Company's total data acquisition costs for the years ended December 31, 2022 and 2021. The amended and renewed term of the agreement with this supplier ends June 30, 2026. The Company may elect to extend the term for an additional twelve months upon written notice to this supplier at least 30 days prior to the end of the amended and renewed term. During the term of the agreement, either party has the right to terminate the agreement: (i) in the event of the other party's failure to cure a material breach, and (ii) in the event of the other party's insolvency. In addition, this supplier may terminate this agreement by providing not less than 12 months' advance written notice to the Company and the Company may terminate this agreement by providing not less than 24 months' advance written notice to this supplier. As of December 31, 2022, the remaining minimum purchase commitments through the end of the amended and renewed term is \$18.6 million. If the Company is unable to maintain its relationship with its largest data supplier, its ability to provide products and services could be negatively impacted, as it would need to secure comparable data on similar terms, which would require significant time, expense, and resources, and may in the short-term adversely affect its reputation, business, financial condition and results of operations and, if it is unable to establish a similar relationship with other data suppliers over time, could have a long-term material impact on its business and financial condition.

As of December 31, 2022 and 2021, among data suppliers, one data supplier accounted for 40% and 26% of the Company's total accounts payable, respectively.

(r) Recently issued accounting standards

As an emerging growth company, the Company has left open the opportunity to take advantage of the extended transition period provided to emerging growth companies in Section 13(a) of the Exchange Act, however, it is the Company's present intention to adopt any applicable new accounting standards timely.

3. Earnings per share

For the years ended December 31, 2022 and 2021, the basic and diluted earnings per share was as follows:

(In thousands, except share data)	Year Ended December 31,	
	2022	2021
Numerator:		
Net income	\$ 616	\$ 655
Denominator:		
Weighted average shares outstanding:		
Basic	13,759,296	12,597,316
Diluted ⁽¹⁾	14,107,144	13,403,041
Earnings per share:		
Basic	\$ 0.04	\$ 0.05
Diluted	\$ 0.04	\$ 0.05

(1) For the years ended December 31, 2022 and 2021, diluted weighted average shares outstanding are calculated by the inclusion of unvested restricted stock units ("RSUs").

4. Accounts receivable, net

Accounts receivable, net consists of the following:

(In thousands)	December 31, 2022	December 31, 2021
Accounts receivable	\$ 5,595	\$ 3,764
Less: Allowance for doubtful accounts	(60)	(28)
Total accounts receivable, net	\$ 5,535	\$ 3,736

The movement of allowance for doubtful accounts is shown below:

(In thousands)	Year Ended December 31,	
	2022	2021
Beginning balance	\$ 28	\$ 38
Charges to expenses	174	95
Write-offs	(142)	(105)
Ending balance	\$ 60	\$ 28

5. Property and equipment, net

Property and equipment, net consists of the following:

(In thousands)	December 31, 2022	December 31, 2021
Computer and network equipment	\$ 1,082	\$ 732
Furniture, fixtures and office equipment	776	763
Leasehold improvements	53	53
Total cost	1,911	1,548
Less: Accumulated depreciation	(1,202)	(971)
Property and equipment, net	\$ 709	\$ 577

Depreciation of property and equipment of \$235 and \$229 was recorded for the years ended December 31, 2022 and 2021, respectively.

6. Intangible assets, net

Intangible assets other than goodwill consist of the following:

(In thousands)	Amortization period	December 31, 2022			December 31, 2021		
		Gross amount	Accumulated amortization	Net	Gross amount	Accumulated amortization	Net
Software developed for internal use	5-10 years	\$ 52,678	\$ (21,031)	\$ 31,647	\$ 42,982	\$ (14,801)	\$ 28,181

The gross amount associated with software developed for internal use represents capitalized costs of internally-developed software, including eligible salaries and staff benefits, share-based compensation, travel expenses incurred by relevant employees, and other relevant costs.

Amortization expenses of \$6,440 and \$5,170 were included in depreciation and amortization expense for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, intangible assets of \$5,338, included in the gross amounts of software developed for internal use, have not started amortization, as they are not ready for their intended use.

The Company capitalized costs of software developed for internal use of \$10,077 and \$6,181 during the years ended December 31, 2022 and 2021, respectively.

As of December 31, 2022, estimated amortization expenses related to the Company's intangible assets for 2023 through 2028 and thereafter are as follows:

(In thousands)	
Year	December 31, 2022
2023	8,123
2024	7,510
2025	6,344
2026	4,859
2027	3,243
2028 and thereafter	1,568
Total	<u>\$ 31,647</u>

7. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

(In thousands)	December 31, 2022	December 31, 2021
Accrued payroll and related expenses	\$ 1,600	\$ 228
Accrued data acquisition costs	116	49
Sales tax payable	38	56
Miscellaneous expenses payable	91	62
Total	<u>\$ 1,845</u>	<u>\$ 395</u>

8. Income taxes

The Company is subject to federal and state income taxes in the United States. The income taxes on income before income taxes consisted of the following:

(In thousands)	Year Ended December 31,	
	2022	2021
Current		
State	\$ 7	\$ -
Deferred		
Federal	1,149	(1,401)
State	392	(303)
Valuation allowance	(1,452)	1,902
	<u>89</u>	<u>198</u>
Provision for income tax	<u>\$ 96</u>	<u>\$ 198</u>

The Company's effective income tax expense differed from the U.S. corporate statutory income tax rate for the years ended December 31, 2022 and 2021. A reconciliation is as follows:

(In thousands)	Year Ended December 31,			
	2022		2021	
Tax on income before income taxes	\$ 150	21%	\$ 179	21%
Effect of state taxes (net of federal tax benefit)	428	60%	(303)	-36%
Excess tax benefit from share-based compensation	(731)	-103%	(2,801)	-328%
Nondeductible executive compensation	1,789	251%	1,556	182%
Forgiveness of the CARES Act loan	-	0%	(456)	-53%
Other permanent differences	(57)	-8%	121	14%
State rate change	(31)	-4%	-	-
Valuation allowance	(1,452)	-204%	1,902	223%
Income tax expense	\$ 96	13%	\$ 198	23%

Components of deferred tax assets and liabilities consist of the following:

(In thousands)	December 31, 2022	December 31, 2021
<u>Deferred tax assets:</u>		
Net operating loss carryforwards	\$ 10,802	\$ 10,860
Share-based compensation	759	1,913
Accounts receivable	16	7
Deferred revenue, and accrued expenses and other current liabilities	231	340
	11,808	13,120
Valuation allowance	(8,033)	(9,485)
	3,775	3,635
<u>Deferred tax liabilities:</u>		
Intangible assets	3,889	3,771
Property and equipment	173	62
	4,062	3,833
Net deferred income tax liabilities	\$ 287	\$ 198

As of December 31, 2022, the Company had gross federal and state net operating loss carryforwards of \$43,346 and \$33,112, respectively, which begin to expire in 2036, except that \$37,691 of federal net operating loss carryforwards incurred from 2018 to 2022 could be carried forward indefinitely. The Company's federal net operating losses are not subject to annual Section 382 limitations due to ownership changes that could impact the future realization.

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. On a periodic basis, management evaluates and determines the amount of valuation allowance required and adjusts such valuation allowance accordingly. Primarily due to cumulative pre-tax losses, management determined a valuation allowance of \$8,033 and \$9,485 was necessary as of December 31, 2022 and 2021, respectively, to reduce the deferred tax assets to the amount that is more likely than not to be realized. The change in the valuation allowance was a decrease of \$1,452 and an increase of \$1,902 for the years ended December 31, 2022 and 2021, respectively. The decrease in the valuation allowance in the year ended December 31, 2022 was primarily due to the decrease in gross deferred tax assets arising from share-based compensation, and the increase in the valuation allowance in the year ended December 31, 2021 was primarily due to the change in net operating loss carryforwards.

The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon its evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the Company's financial statements.

The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Due to the existence of net operating loss carryforwards since inception, all of the Company's income tax filings remain open for tax examinations.

The Company does not have any unrecognized tax benefits as of December 31, 2022 and 2021.

9. Common stock and preferred stock

Common stock and treasury stock

As of December 31, 2022 and 2021, the number of authorized shares of common stock was 200,000,000, with a par value of \$0.001 per share, of which, 13,956,404 and 13,488,540 shares of common stock were issued, respectively.

As of December 31, 2022 and 2021, there was no treasury stock.

During the year ended December 31, 2021, the changes in the number of issued shares of common stock and treasury stock was due to the following factors:

- An aggregate of 911,698 shares of common stock issued as a result of the vesting of RSUs, of which, an aggregate of 143,400 shares of common stock were withheld to pay withholding taxes upon such vesting, which were reflected in treasury stock, with a cost of \$3,327. The treasury stock of 143,400 shares was then retired fully during the year ended December 31, 2021.
- An aggregate of 552,915 shares of common stock, with an issuance price of \$38.00 per share, were issued in a registered direct offering to certain investors, pursuant to the securities purchase agreements entered into on November 19, 2021. Net proceeds of \$20,924 were received in November 2021.

During the year ended December 31, 2022, the changes in the number of issued shares of common stock and treasury stock was due to the following factors:

- An aggregate of 770,210 shares of common stock issued as a result of the vesting of RSUs, of which, an aggregate of 252,346 shares of common stock were withheld to pay withholding taxes upon such vesting, which were reflected in treasury stock, with a cost of \$5,200. The treasury stock of 252,346 shares was then retired fully during the year ended December 31, 2022.
- On May 4, 2022, the board of directors of the Company authorized the repurchase of up to \$5.0 million of the Company's common stock from time to time (the "Stock Repurchase Program"). The Stock Repurchase Program does not obligate the Company to repurchase any shares and may be modified, suspended or terminated at any time and for any reason at the discretion of the board of directors. During the year ended December 31, 2022, the Company repurchased 50,000 shares of common stock under the Stock Repurchase Program at a net average price of \$17.56 per share, which was reflected in treasury stock, with a cost of \$878. The treasury stock of 50,000 shares was then retired fully during the year ended December 31, 2022.

Preferred stock

As of December 31, 2022 and 2021, the Company had 10,000,000 shares of preferred stock with par value of \$0.001 per share authorized, and there were no shares of preferred stock issued or outstanding.

10. Share-based compensation

On March 22, 2018, the board of directors of the Company and Cogint, Inc. ("cogint") (now known as Fluent, Inc.), in its capacity as sole stockholder of the Company prior to the Company's spin-off from cogint on March 26, 2018 (the "Spin-off"), approved the Red Violet, Inc. 2018 Stock Incentive Plan (the "2018 Plan"), which became effective immediately prior to the Spin-off. A total of 3,000,000 shares of common stock were authorized to be issued under the 2018 Plan. On June 3, 2020, the Company's stockholders approved an amendment to the 2018 Plan to increase the number of shares of common stock authorized for issuance under the 2018 Plan from 3,000,000 shares to 4,500,000 shares, and on May 25, 2022, the Company's stockholders approved an amendment to the 2018 Plan to increase the number of shares of common stock authorized for issuance under the 2018 Plan from 4,500,000 shares to 6,500,000 shares.

The primary purpose of the 2018 Plan, as amended, is to attract, retain, reward and motivate certain individuals by providing them with an opportunity to acquire or increase a proprietary interest in the Company and to incentivize them to expend maximum effort for the growth and success of the Company, so as to strengthen the mutuality of the interests between such individuals and the stockholders of the Company.

As of December 31, 2022, there were 2,289,357 shares of common stock available for future issuance under the 2018 Plan, as amended.

To date, all stock incentives issued under the 2018 Plan have been in the form of RSUs. RSUs granted under the 2018 Plan vest and settle upon the satisfaction of a time-based condition or with both time- and performance-based conditions. The time-based condition for these awards is generally satisfied over three or four years with annual vesting. Details of unvested RSUs activity during the years ended December 31, 2022 and 2021 were as follows:

	Number of units	Weighted average grant-date fair value
Unvested as of December 31, 2020	1,764,450	\$ 11.43
Granted ⁽¹⁾	506,850	\$ 27.50
Vested and delivered	(768,298)	\$ 9.36
Withheld as treasury stock ⁽²⁾	(143,400)	\$ 9.33
Vested not delivered ⁽³⁾	(10,750)	\$ 13.68
Forfeited	(41,899)	\$ 18.97
Unvested as of December 31, 2021	1,306,953	\$ 18.85
Granted ⁽¹⁾	561,100	\$ 18.29
Vested and delivered	(517,864)	\$ 15.86
Withheld as treasury stock ⁽²⁾	(252,346)	\$ 16.71
Vested not delivered ⁽³⁾	(8,716)	\$ 22.81
Forfeited	(44,995)	\$ 26.30
Unvested as of December 31, 2022	<u>1,044,132</u>	<u>\$ 20.64</u>

- (1) For the year ended December 31, 2021, in addition to 120,000 RSUs with Criteria Four as discussed below, the Company granted an aggregate of 386,850 RSUs to certain employees and members of the Company's board of directors at grant date fair values ranging from \$20.28 to \$38.81 per share, with a vesting period ranging from one to four years. For the year ended December 31, 2022, the Company granted an aggregate of 561,100 RSUs to certain employees and members of the Company's board of directors at grant date fair values ranging from \$16.00 to \$28.75 per share, with a vesting period ranging from two to four years.
- (2) Withheld as treasury stock represents shares withheld to pay statutory taxes upon the vesting of RSUs. Refer to Note 9 for details.
- (3) Vested not delivered represents RSUs that have been vested but the delivery of the common stock underlying such RSUs were deferred.

There were certain grants of RSUs with both time- and performance-based conditions. Details of such grants of RSUs were as follows:

RSU grants with performance criteria	Grant dates	Number of units	Weighted average grant-date fair value	Vesting period	Amortization of share-based compensation	
					Year Ended December 31,	
					2022	2021
Criteria One ⁽¹⁾	9/5/2018 - 1/16/2019	1,577,500	\$ 7.66	3-4 years	\$ 6	\$ 1,206
Criteria Two ⁽²⁾	8/28/2019 - 9/8/2020	277,500	\$ 12.27	3-4 years	278	781
Criteria Three ⁽³⁾	8/28/2019 - 11/20/2020	455,000	\$ 15.44	3 years	491	2,239
Criteria Four ⁽⁴⁾	7/30/2021	120,000	\$ 15.13	5 years	-	-
		<u>2,430,000</u>			<u>\$ 775</u>	<u>\$ 4,226</u>

- (1) Such RSU grants shall not vest unless and until the Company has, for any fiscal quarter in which the RSUs are outstanding, (i) gross revenue determined in accordance with the Company's reviewed or audited financial statements in excess of \$7.0 million for such fiscal quarter, (ii) positive adjusted EBITDA, as determined based on amounts derived from the Company's reviewed or audited financial statements for such fiscal quarter, and (iii) the participant continues to provide services to the Company either as an employee, director or consultant on the last day of the quarter that the performance criteria are met. Provided the performance criteria are met, the RSUs will vest in accordance with the time-based requirements contained in the award agreement over three years. In the event of a change of control, all RSUs which have not vested on the date of such change of control shall immediately vest even if the performance criteria have not been met. As of June 30, 2019, the Company determined that the Criteria One was met. As of December 31, 2022, all shares underlying such awards have vested and been issued in accordance with their time-based vesting requirement.

- (2) Such RSU grants shall not vest unless and until the Company has, for any fiscal quarter in which the RSUs are outstanding, (i) gross revenue determined in accordance with the Company’s reviewed or audited financial statements in excess of \$10.0 million for such fiscal quarter, (ii) positive adjusted EBITDA of at least \$1.5 million, as determined based on amounts derived from the Company’s reviewed or audited financial statements for such fiscal quarter, and (iii) the recipient continues to provide services to the Company either as an employee, director or consultant on the last day of the quarter that the performance criteria are met. Provided the performance criteria are met, the RSUs will vest in accordance with the time-based requirements contained in the award agreement over three or four years. In the event of a change of control, all RSUs which have not vested on the date of such change of control shall immediately vest even if the performance criteria have not been met. As of the respective grant dates, the Company determined that it was probable that the Criteria Two would be met and therefore, began to record the related amortization expense on the grant dates. The Company determined that Criteria Two was met as of March 31, 2021. As of December 31, 2022, the remaining 10,249 shares underlying such awards are expected to vest and be issued in accordance with their time-based vesting requirement.
- (3) Such RSU grants shall not vest unless and until the Company has, for any fiscal quarter in which the RSUs are outstanding, (i) gross revenue determined in accordance with the Company’s reviewed or audited financial statements in excess of \$12.5 million for such fiscal quarter, (ii) positive adjusted EBITDA of at least \$2.0 million, as determined based on amounts derived from the Company’s reviewed or audited financial statements for such fiscal quarter, and the recipient continues to provide services to the Company either as an employee, director or consultant on the last day of the quarter that the performance criteria are met. Provided the respective performance criteria are met, the RSUs will vest in accordance with the time-based requirements contained in the award agreement over three years. In the event of a change of control, all RSUs which have not vested on the date of such change of control shall immediately vest even if the performance criteria have not been met. As of the respective grant dates, the Company determined that it was probable that the Criteria Three would be met and therefore, began to record the related amortization expense on the grant dates. The Company determined that the performance criteria were met as of March 31, 2022. As of December 31, 2022, the remaining 10,000 shares underlying such awards are expected to vest and be issued in accordance with their time-based vesting requirement.
- (4) On July 30, 2021, the Company granted 120,000 RSUs, subject to performance-based requirements, to one non-executive employee, which was subsequently modified on November 7, 2022, with a fair value of \$15.13 per share as of the modification date. Such RSU grants shall not vest unless and until the Company has achieved certain revenue for a portion of its business prior to the achievement date deadline for each performance milestone. No amortization of share-based compensation expense has been recognized for these RSUs, because, as of December 31, 2022, the Company determined that it is not probable that such performance criteria will be met. The 120,000 RSUs were included in "Unvested as of December 31, 2022" with a fair value of \$15.13 per share.

As of December 31, 2022, unrecognized share-based compensation expense associated with the granted RSUs amounted to \$17,848, which is expected to be recognized over a weighted average period of 2.5 years.

Share-based compensation was allocated to the following accounts in the consolidated financial statements for the years ended December 31, 2022 and 2021:

(In thousands)	Year Ended December 31,	
	2022	2021
Sales and marketing expenses	\$ 290	\$ 562
General and administrative expenses	5,215	6,053
Share-based compensation expense	5,505	6,615
Capitalized in intangible assets	1,621	1,217
Total	\$ 7,126	\$ 7,832

11. Related party transactions

Services Agreement

On August 7, 2018, the Company entered into a services agreement (the “Services Agreement”) with Mr. Michael Brauser (the “Consultant”), a greater than 10% stockholder, pursuant to which, the Consultant received cash compensation of \$30 per month and was entitled to participate in the Company’s incentive compensation plan. The Services Agreement terminated on August 6, 2021, as further detailed below.

On February 16, 2021, the Company entered into a Separation Agreement (the "Separation Agreement") with the Consultant. Pursuant to the Separation Agreement, the parties agreed that the Services Agreement which expired on August 6, 2021 ("Expiration Date"), would not be renewed, but would continue in force and effect until the Expiration Date. As part of the Separation Agreement, the Consultant agreed (i) to certain non-solicitation obligations contained therein, (ii) that he and his affiliates would not disparage or assist or cooperate with any person or entity seeking to publicly disparage or economically harm the Company, (iii) that the Consultant and his affiliates would not initiate any lawsuit, claim, or proceeding with respect to any claims against the Company, except (with designated exceptions) for any legal proceeding initiated solely to remedy a breach of or to enforce the Separation Agreement, and (iv) with respect to each annual or special meeting of the Company's stockholders until the Expiration Date of the Separation Agreement, the Consultant agreed to vote the shares of the Company's common stock or any other securities entitled to vote then held by him or his affiliates in accordance with the board of directors' recommendations on director proposals (subject to certain board of directors change thresholds), and the ratification of the appointment of the Company's independent registered public accounting firm.

The Company agreed (i) that the remaining unvested 166,666 RSUs previously granted to Consultant in accordance with the 2018 RSU agreement would continue to vest on July 1, 2021, in accordance with and subject to all other provisions and conditions of such grant, (ii) to amend the 2020 RSU agreement, previously granting Consultant 30,000 RSUs such that the 30,000 RSUs would continue to vest 33-1/3% on November 1, 2021, 66-2/3% on November 1, 2022, and 100% on November 1, 2023, without certain Company performance criteria, subject to all other provisions and conditions of such grant, (iii) to include shares of the Company's common stock held by the Consultant or his affiliates in any registration statement the Company files for the benefit of selling stockholders at any time when the Consultant or his affiliates beneficially own 10% or more of the Company's common stock, and (iv) to not initiate any lawsuit, claim, or proceeding with respect to any claims against the Consultant and his affiliates, except (with designated exceptions) for any legal proceeding initiated solely to remedy a breach of or to enforce the Separation Agreement. As a result of the modification to the 2020 RSU agreement, beginning February 16, 2021, the Company recognized an aggregate of \$723 in share-based compensation expense over the remaining service period which ended on the Expiration Date.

The Company recognized consulting service fees relating to the Services Agreement of a total of \$216 during the year ended December 31, 2021. In addition, amortization of share-based compensation expense of \$1,432 (inclusive of \$723 in relation with the modification of RSUs above) for the year ended December 31, 2021, was recognized in relation to the RSUs previously granted to the Consultant. There were no such expenses recognized during the year ended December 31, 2022.

12. Leases

On January 1, 2019, the Company adopted Leases (Topic 842) using the modified retrospective method applied to all leases existing at the date of initial application. The Company elected the practical expedients to not reassess whether any existing contracts are or contain leases, not reassess the lease classification for any existing leases, and not reassess initial direct costs for any existing leases, upon the adoption of Leases (Topic 842).

The Company leases its corporate headquarters of 21,020 rentable square feet in accordance with a non-cancelable 89-month operating lease agreement as amended and effective in January 2017, with an option to extend for an additional 60 months. The Company also leases an additional office space of 6,003 rentable square feet in accordance with a non-cancellable 90-month operating lease agreement entered into in April 2017, with an option to extend for additional 60 months. The extension option is not included in the determination of the lease term as it is not reasonably certain to be exercised.

For the years ended December 31, 2022 and 2021, a summary of the Company's lease information is shown below:

(In thousands)	Year Ended December 31,	
	2022	2021
Lease cost:		
Operating lease costs	\$ 672	\$ 672
Other information:		
Cash paid for operating leases	\$ 743	\$ 724

There were no additional right-of-use assets obtained in exchange for operating lease liabilities during the years ended December 31, 2022 and 2021. The Company used 8.0%, its estimated incremental borrowing rate for similar secured assets, as the discount rate for the above-mentioned leases to determine the present value of the lease payments because the implicit rate in each lease is not readily determinable. The discount rate was calculated on the basis of information available as of January 1, 2019, the application date.

As of December 31, 2022, the weighted average remaining operating lease term was 1.9 years.

As of December 31, 2022, scheduled future maturities and present value of the operating lease liabilities are as follows:

(In thousands)	
Year	December 31, 2022
2023	765
2024	542
2025	77
Total maturities	<u>\$ 1,384</u>
Present value included in condensed consolidated balance sheet:	
Current portion of operating lease liabilities	\$ 692
Noncurrent operating lease liabilities	598
Total operating lease liabilities	<u>\$ 1,290</u>
Difference between the maturities and the present value of operating lease liabilities	<u>\$ 94</u>

13. Commitments and contingencies

(a) Capital commitment

The Company incurred data costs of \$9,171 and \$8,481 for the years ended December 31, 2022 and 2021, respectively, under certain data licensing agreements. As of December 31, 2022, future material capital commitments under certain data licensing agreements were \$27,162, shown as follows:

(In thousands)	
Year	December 31, 2022
2023	8,287
2024	7,548
2025	7,507
2026	3,820
Total	<u>\$ 27,162</u>

(b) Employment agreements

The Company has employment agreements with certain executives, mainly including its Chief Executive Officer, President, Chief Financial Officer and Chief Information Officer, which provide for compensation and certain other benefits and for severance payments under certain circumstances.

(c) Contingency

The Company establishes accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and it discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for its financial statements to not be misleading. To estimate whether a loss contingency should be accrued by a charge to income, the Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. The Company does not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated.

The Company may be involved in litigation from time to time in the ordinary course of business. The Company does not believe that the ultimate resolution of any such matters will have a material adverse effect on its business, financial condition, results of operations or cash flows. However, the results of such matters cannot be predicted with certainty and the Company cannot assure you that the ultimate resolution of any legal or administrative proceeding or dispute will not have a material adverse effect on its business, financial condition, results of operations and cash flows.

(d) Covid-19 update

During 2020, the Company experienced significantly reduced commercial activity in numerous aspects of its business as a result of the preventative and protective actions taken by federal, state and local governments to combat Covid-19, including the implementation of stay-at-home orders, social distancing policies and certain temporary government-imposed moratoria on collection customers' activities. During 2021 and 2022, the Company saw ongoing improvement in its results of operations, with the exception of the Company's idiVERIFIED service, which is an ancillary collections market offering that is purely transactional and of a lower margin profile. At this time, the Company cannot estimate if, or when, its idiVERIFIED service volume will return to pre-Covid levels.

To further support the Company's liquidity, beginning April 1, 2020, the Company elected, under Section 2302 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), to defer payment of the employer portion of Social Security payroll tax. Under the CARES Act, employers could forgo timely payment of the employer portion of Social Security taxes that would otherwise be due from March 27, 2020 through December 31, 2020, without penalty or interest charges. The Company paid 50% of the deferred amount in December 2021 and the remainder in December 2022, as required. On May 5, 2020, the Company received funding under a promissory note dated May 5, 2020 evidencing an unsecured non-recourse loan under the CARES Act, which was fully forgiven by Legacy Bank of Florida and the U.S. Small Business Administration in June 2021, resulting in a gain on extinguishment of debt of \$2,175 during the year ended December 31, 2021.

Red Violet, Inc. Board of Directors
As of April 12, 2023

Derek Dubner – Chairman of the Board

CEO of Red Violet, Inc.

Peter Benz (1)

Investment Industry Executive; Former CEO of Viking Asset Management, LLC

Steven Rubin (1)

EVP of Opko Health, Inc., a diverse healthcare company

Lisa Stanton

Retired Financial Services, Technology and Security Executive

Robert Swayman (1)

EVP of Finance of Healthier Choices Management Corp., a company specializing in providing consumers with healthier alternatives to everyday lifestyle choices

(1) Member of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee.

Red Violet, Inc. Executive Officers
As of April 12, 2023

Derek Dubner

Chairman and Chief Executive Officer

Daniel MacLachlan

Chief Financial Officer

James Reilly

President

Jeffrey Dell

Chief Information Officer

STOCK AND INVESTOR INFORMATION

Corporate Offices -

*2650 North Military Trail, Suite 300
Boca Raton, FL 33431
(561) 757-4000*

Common Stock -

Red Violet, Inc. Common Stock, par value \$0.001, is traded on the NASDAQ Stock Market LLC under the symbol "RDVT"

Independent Auditors -

*Grant Thornton LLP
1301 International Parkway, Suite 300
Fort Lauderdale, FL 33323*

Transfer Agent -

*Continental Stock Transfer & Trust Company
1 State Street 30th Floor
New York, NY 10004-1561*

At the written request of each record owner or beneficial owner of our securities we will provide, without charge, a copy of the Red Violet, Inc. Annual Report on Form 10-K for the year ended December 31, 2022, or any exhibit thereto not included herein. Requests should be sent to Secretary, Red Violet, Inc. 2650 North Military Trail, Suite 300, Boca Raton, FL 33431.

Except for the historical matters contained herein, statements made in this report are forward looking and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Investors are cautioned that forward looking statements involve risks and uncertainties that may affect our business and prospects, including economic, competitive, governmental, technological, and other factors discussed in this report and in our filings with the Securities and Exchange Commission, including without limitation, the Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 8, 2023.