

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 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)

(561) 757-4000

(Registrant's Telephone Number, Including Area Code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant (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 is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES NO

As of May 2, 2022, the registrant had 13,523,067 shares of common stock outstanding.

RED VIOLET, INC.
TABLE OF CONTENTS FOR FORM 10-Q

	Page	
<u>PART I - FINANCIAL INFORMATION</u>		
Item 1.	<u>Financial Statements (unaudited)</u>	
	<u>Condensed consolidated balance sheets as of March 31, 2022 and December 31, 2021</u>	1
	<u>Condensed consolidated statements of operations for the three months ended March 31, 2022 and 2021</u>	2
	<u>Condensed consolidated statements of changes in shareholders' equity for the three months ended March 31, 2022 and 2021</u>	3
	<u>Condensed consolidated statements of cash flows for the three months ended March 31, 2022 and 2021</u>	4
	<u>Notes to condensed consolidated financial statements</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 4.	<u>Controls and Procedures</u>	18
<u>PART II - OTHER INFORMATION</u>		
Item 1.	<u>Legal Proceedings</u>	19
Item 1A.	<u>Risk Factors</u>	19
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
Item 3.	<u>Defaults Upon Senior Securities</u>	19
Item 4.	<u>Mine Safety Disclosures</u>	19
Item 5.	<u>Other Information</u>	19
Item 6.	<u>Exhibits</u>	20
<u>SIGNATURES</u>		21

PART I - FINANCIAL INFORMATION

Unless otherwise indicated or required by the context, all references in this Quarterly Report on Form 10-Q to “we,” “us,” “our,” “red violet,” or the “Company,” refer to Red Violet, Inc. and its consolidated subsidiaries.

Item 1. Financial Statements.

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

	March 31, 2022	December 31, 2021
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 34,775	\$ 34,258
Accounts receivable, net of allowance for doubtful accounts of \$22 and \$28 as of March 31, 2022 and December 31, 2021, respectively	4,561	3,736
Prepaid expenses and other current assets	1,081	599
Total current assets	40,417	38,593
Property and equipment, net	625	577
Intangible assets, net	28,804	28,181
Goodwill	5,227	5,227
Right-of-use assets	1,529	1,661
Other noncurrent assets	137	137
Total assets	\$ 76,739	\$ 74,376
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 2,233	\$ 1,605
Accrued expenses and other current liabilities	442	395
Current portion of operating lease liabilities	636	617
Deferred revenue	713	841
Total current liabilities	4,024	3,458
Noncurrent operating lease liabilities	1,124	1,291
Deferred tax liabilities	373	198
Total liabilities	5,521	4,947
Shareholders' equity:		
Preferred stock—\$0.001 par value, 10,000,000 shares authorized, and 0 shares issued and outstanding, as of March 31, 2022 and December 31, 2021	-	-
Common stock—\$0.001 par value, 200,000,000 shares authorized, 13,523,067 and 13,488,540 shares issued and outstanding, as of March 31, 2022 and December 31, 2021	14	13
Additional paid-in capital	93,115	91,434
Accumulated deficit	(21,911)	(22,018)
Total shareholders' equity	71,218	69,429
Total liabilities and shareholders' equity	\$ 76,739	\$ 74,376

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2022	2021
Revenue	\$ 12,729	\$ 10,217
Costs and expenses:		
Cost of revenue (exclusive of depreciation and amortization)	3,170	2,761
Sales and marketing expenses	2,391	2,221
General and administrative expenses	5,353	4,550
Depreciation and amortization	1,534	1,258
Total costs and expenses	<u>12,448</u>	<u>10,790</u>
Income (loss) from operations	281	(573)
Interest income (expense), net	1	(5)
Income (loss) before income taxes	<u>282</u>	<u>(578)</u>
Income tax expense	175	-
Net income (loss)	<u>\$ 107</u>	<u>\$ (578)</u>
Earnings (loss) per share:		
Basic	\$ 0.01	\$ (0.05)
Diluted	<u>\$ 0.01</u>	<u>\$ (0.05)</u>
Weighted average number of shares outstanding:		
Basic	13,543,607	12,207,193
Diluted	<u>14,047,635</u>	<u>12,207,193</u>

See notes to condensed consolidated financial statements

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

	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	40,750	-	-	-	-	-	-
Share-based compensation	-	-	-	-	2,397	-	2,397
Net loss	-	-	-	-	-	(578)	(578)
Balance at March 31, 2021	<u>12,208,077</u>	<u>\$ 13</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 68,402</u>	<u>\$ (23,251)</u>	<u>\$ 45,164</u>
Balance at December 31, 2021	13,488,540	\$ 13	-	\$ -	\$ 91,434	\$ (22,018)	\$ 69,429
Vesting of restricted stock units	34,750	1	-	-	(1)	-	-
Increase in treasury stock resulting from shares withheld to cover statutory taxes	-	-	(223)	(6)	-	-	(6)
Retirement of treasury stock	(223)	-	223	6	(6)	-	-
Share-based compensation	-	-	-	-	1,688	-	1,688
Net income	-	-	-	-	-	107	107
Balance at March 31, 2022	<u>13,523,067</u>	<u>\$ 14</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 93,115</u>	<u>\$ (21,911)</u>	<u>\$ 71,218</u>

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 107	\$ (578)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,534	1,258
Share-based compensation expense	1,387	2,046
Write-off of long-lived assets	3	19
Provision for bad debts	37	59
Noncash lease expenses	132	121
Interest expense	-	5
Deferred income tax expense	175	-
Changes in assets and liabilities:		
Accounts receivable	(862)	(440)
Prepaid expenses and other current assets	(482)	(392)
Other noncurrent assets	-	2
Accounts payable	628	(101)
Accrued expenses and other current liabilities	47	(583)
Deferred revenue	(128)	(51)
Operating lease liabilities	(148)	(133)
Net cash provided by operating activities	<u>2,430</u>	<u>1,232</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(113)	(46)
Capitalized costs included in intangible assets	(1,794)	(1,247)
Net cash used in investing activities	<u>(1,907)</u>	<u>(1,293)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Taxes paid related to net share settlement of vesting of restricted stock units	(6)	-
Net cash used in financing activities	<u>(6)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	\$ 517	\$ (61)
Cash and cash equivalents at beginning of period	34,258	12,957
Cash and cash equivalents at end of period	<u>\$ 34,775</u>	<u>\$ 12,896</u>
SUPPLEMENTAL DISCLOSURE INFORMATION		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Share-based compensation capitalized in intangible assets	\$ 301	\$ 351
Retirement of treasury stock	\$ 6	\$ -

See notes to condensed consolidated financial statements

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

1. Summary of significant accounting policies

(a) Basis of preparation

The accompanying unaudited condensed consolidated financial statements of Red Violet, Inc., a Delaware corporation, and its consolidated subsidiaries (collectively, “red violet” or the “Company”), have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to those rules and regulations.

The accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for any future interim periods or for the full year ending December 31, 2022.

The information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (“Form 10-K”).

The condensed consolidated balance sheet as of December 31, 2021 included herein was derived from the audited financial statements as of that date included in the Form 10-K, but does not include all disclosures required by US GAAP.

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

Principles of consolidation

The condensed 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) 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 Securities Exchange Act of 1934, as amended (the “Exchange Act”), however, it is the Company’s present intention to adopt any applicable new accounting standards timely.

2. Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the periods. Diluted earnings (loss) 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 unvested shares. Common equivalent shares are excluded from the calculation in the loss periods as their effects would be anti-dilutive.

(In thousands, except share data)	Three Months Ended March 31,	
	2022	2021
Numerator:		
Net income (loss)	\$ 107	\$ (578)
Denominator:		
Weighted average shares outstanding:		
Basic	13,543,607	12,207,193
Diluted ⁽¹⁾	14,047,635	12,207,193
Earnings (loss) per share:		
Basic	\$ 0.01	\$ (0.05)
Diluted	\$ 0.01	\$ (0.05)

(1) For the three months ended March 31, 2022, diluted weighted average shares outstanding are calculated by the inclusion of unvested restricted stock units (“RSUs”). For the three months ended March 31, 2021, a total of 1,686,499 unvested RSUs have been excluded from the diluted loss per share, as the impact is anti-dilutive.

3. Intangible assets, net

Intangible assets other than goodwill consist of the following:

(In thousands)	Amortization Period	March 31, 2022			December 31, 2021		
		Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Software developed for internal use	5-10 years	\$ 45,077	\$ (16,273)	\$ 28,804	\$ 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 \$1,472 and \$1,203 for the three months ended March 31, 2022 and 2021, respectively, were included in depreciation and amortization expense. As of March 31, 2022, intangible assets of \$3,780, 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 \$2,095 and \$1,598 during the three months ended March 31, 2022 and 2021, respectively.

As of March 31, 2022, estimated amortization expense related to the Company's intangible assets for the remainder of 2022 through 2027 and thereafter are as follows:

(In thousands)	March 31, 2022
Year	
Remainder of 2022	4,746
2023	6,666
2024	6,039
2025	4,835
2026	3,377
2027 and thereafter	3,141
Total	\$ 28,804

4. Goodwill

Goodwill represents the cost in excess of the fair value of the net assets acquired in a business combination. As of March 31, 2022 and December 31, 2021, the balance of goodwill of \$5,227 was as a result of the acquisition of Interactive Data, LLC, 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. The measurement date of the Company's annual goodwill impairment test is October 1.

For the periods ended March 31, 2022 and 2021, no goodwill impairment charges were recorded.

5. 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.

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. The Company's revenue arrangements do not contain significant financing components.

For the three months ended March 31, 2022 and 2021, 77% and 80% of total revenue was attributable to customers with pricing contracts, respectively, versus 23% 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 March 31, 2022 and December 31, 2021, the balance of deferred revenue was \$713 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, \$323 was recognized into revenue during the three months ended March 31, 2022.

As of March 31, 2022, \$9,962 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, \$4,925 of revenue will be recognized in the remainder of 2022, \$4,232 in 2023, \$797 in 2024, and \$8 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.

6. Income taxes

The Company is subject to federal and state income taxes in the United States. The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items arising in that quarter, unless a reliable estimate of ordinary income or the related tax expense/benefit cannot be made or the Company is in cumulative losses for which the benefit cannot be realized. In each quarter, the Company updates its estimate of the annual effective tax rate, and if its estimated annual tax rate changes, the Company makes a cumulative adjustment in that quarter. For the three months ended March 31, 2022, the Company concluded that it was in a cumulative loss with a full valuation allowance booked against that loss.

For the three months ended March 31, 2022 and 2021, the Company's effective income tax rate was 62% and 0%, respectively, differing from the U.S. corporate statutory federal income tax rate of 21%, and the difference is primarily the result of the valuation allowance applied to reduce the Company's deferred tax assets to the amount that is more likely than not to be realized.

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. All of the Company's income tax filings since 2018 remain open for tax examinations.

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

7. 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, 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. On April 11, 2022, the board of directors of the Company approved, subject to stockholder approval, an amendment to the 2018 Plan to further 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 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 March 31, 2022, there were 719,187 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 RSU activity during the three months ended March 31, 2022 were as follows:

	Number of units	Weighted average grant-date fair value
Unvested as of December 31, 2021	1,306,953	\$ 18.85
Granted ⁽¹⁾	102,500	\$ 25.40
Vested and delivered	(34,527)	\$ 7.98
Withheld as treasury stock	(223)	\$ 7.53
Vested not delivered ⁽²⁾	(282,585)	\$ 14.97
Forfeited	(16,225)	\$ 23.36
Unvested as of March 31, 2022 ⁽³⁾	<u>1,075,893</u>	<u>\$ 21.12</u>

- (1) During the three months ended March 31, 2022, the Company granted an aggregate of 102,500 RSUs to certain employees at grant date fair values ranging from \$24.42 to \$28.75 per share, with a vesting period ranging from two to four years.
- (2) The amount included in "Vested not delivered" above represents RSUs that have been vested but the delivery of the common stock underlying such RSUs had not occurred as of March 31, 2022. During the period from August 29, 2019 to November 20, 2020, the Company granted an aggregate of 455,000 RSUs. 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, and (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, subject to the recipient continuing 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 such performance criteria 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 a result, 283,335 RSUs were included in "Vested not delivered" above.
- (3) 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 February 18, 2022, with a fair value of \$27.23 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 March 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 March 31, 2022" with a fair value of \$27.23 per share.

As of March 31, 2022, unrecognized share-based compensation expense associated with the granted RSUs amounted to \$17,904, which is expected to be recognized over a remaining weighted average period of 3.0 years.

Share-based compensation was allocated to the following accounts in the condensed consolidated financial statements for the three months ended March 31, 2022 and 2021:

(In thousands)	Three Months Ended March 31,	
	2022	2021
Sales and marketing expenses	\$ 47	\$ 156
General and administrative expenses	1,340	1,890
Share-based compensation expense	1,387	2,046
Capitalized in intangible assets	301	351
Total	\$ 1,688	\$ 2,397

8. 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 \$0 and \$90 during the three months ended March 31, 2022 and 2021, respectively. In addition, amortization of share-based compensation expense of \$0 and \$548 (inclusive of the amortization of share-based compensation expense in relation with the modification of RSUs mentioned above) for the three months ended December 31, 2022 and 2021, respectively, was recognized in relation to the RSUs previously granted to the Consultant.

9. Leases

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 an 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 three months ended March 31, 2022 and 2021, a summary of the Company's lease information is shown below:

(In thousands)	Three Months Ended March 31,	
	2022	2021
Lease cost:		
Operating lease costs	\$ 168	\$ 168
Other information:		
Cash paid for operating leases	\$ 184	\$ 179

As of March 31, 2022, the weighted average remaining operating lease term was 2.6 years.

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

(In thousands)	March 31, 2022	
Year		
Remainder of 2022	\$	559
2023		765
2024		542
2025		77
Total maturities	\$	1,943
Present value included in consolidated balance sheet:		
Current portion of operating lease liabilities	\$	636
Noncurrent operating lease liabilities		1,124
Total operating lease liabilities	\$	1,760
Difference between the maturities and the present value of operating lease liabilities	\$	183

10. Commitments and contingencies

(a) Capital commitment

The Company incurred data costs of \$2,248 and \$2,122 for the three months ended March 31, 2022 and 2021, respectively, under certain data licensing agreements. As of March 31, 2022, material capital commitments under certain data licensing agreements were \$31,634, shown as follows:

(In thousands)	March 31, 2022	
Year		
Remainder of 2022		6,066
2023		7,315
2024		7,166
2025		7,267
2026		3,820
Total	\$	31,634

(b) Contingencies

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.

(c) 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 the first quarter of 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. The Company expects its idiVERIFIED service volume to return to pre-Covid levels in the first half of 2023. Given the ongoing uncertainty and the unpredictable nature of the pandemic, including the emergence of new variants and the development, availability, distribution and effectiveness of vaccines, the full impact of the Covid-19 pandemic on the Company's ongoing business, results of operations and overall financial performance cannot be reasonably estimated at this time.

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. Employers must pay 50% of the deferred amount by December 31, 2021, and the remainder by December 31, 2022. The Company paid 50% of the deferred amount in December 2021. 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. The Company will continue to assess the CARES Act and other applicable government legislation aimed at assisting businesses during the Covid-19 pandemic.

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

You should read the following discussion and analysis in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q ("Form 10-Q"). This Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"), Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, (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, including the impact of the coronavirus ("Covid-19") pandemic on our operating results. These factors include those contained in this Quarterly Report on Form 10-Q, as well as the disclosures made in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed on March 9, 2022 ("Form 10-K"), and other filings we make with the Securities and Exchange Commission. 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 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. To the extent that our business is negatively impacted due to a variety of factors, including the impact of Covid-19 on our operating results, we may implement longer-term cost reduction efforts in order to mitigate such impacts.

References in this discussion and analysis to "we," "us," "our," "red violet," or the "Company," refer to Red Violet, Inc. and its consolidated subsidiaries.

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 March 31, 2022 and 2021, IDI had 6,592 and 5,902 billable customers and FOREWARN had 91,490 and 58,831 users, respectively. The Company defines 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. The Company defines 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 three months ended March 31, 2022 and 2021, 77% and 80% of total revenue was attributable to customers with pricing contracts, respectively, versus 23% 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 the first quarter of 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. We expect our idiVERIFIED service volume to return to pre-Covid levels in the first half of 2023. Given the ongoing uncertainty and the unpredictable nature of the pandemic, including the emergence of new variants and the development, availability, distribution and effectiveness of vaccines, the full impact of the Covid-19 pandemic on our ongoing business, results of operations and overall financial performance cannot be reasonably estimated at this time.

To further support our liquidity, beginning April 1, 2020, we 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. Employers must pay 50% of the deferred amount by December 31, 2021, and the remainder by December 31, 2022. We paid 50% of the deferred amount in December 2021. 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, 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 \$2.2 million during the year ended December 31, 2021. We will continue to assess the CARES Act and other applicable government legislation aimed at assisting businesses during the Covid-19 pandemic

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues 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.

For additional information, please refer to our Form 10-K. There have been no material changes to Critical Accounting Policies and Estimates disclosed in our Form 10-K.

Recently issued accounting standards

See Note 1(b), “*Recently issued accounting standards*,” in “Notes to Condensed Consolidated Financial Statements.”

First Quarter Financial Results

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

- Total revenue increased 25% to \$12.7 million. Platform revenue increased 24% to \$12.2 million. Services revenue increased 27% to \$0.5 million.
- Gross profit increased 29% to \$8.1 million. Gross margin increased to 64% from 61%.
- Adjusted gross profit increased 28% to \$9.6 million. Adjusted gross margin increased to 75% from 73%.
- Net income was \$0.1 million compared to a loss of \$0.6 million.
- Adjusted EBITDA increased 12% to \$3.2 million.
- Cash from operating activities increased 97% to \$2.4 million.
- Cash and cash equivalents were \$34.8 million as of March 31, 2022.

First Quarter and Recent Business Highlights

- Added 27 team members, including 18 members to our technology team, expanding our capabilities, depth and efficiency to drive product suite expansion.
- Added 44 customers to IDI™ during the first quarter, ending the quarter with 6,592 customers.
- Added 9,071 users to FOREWARN® during the first quarter, ending the quarter with 91,490 users. Over 200 REALTOR® Associations throughout the U.S. are now contracted to use FOREWARN.
- Released idiCORE™ Mobile, an app-based solution providing customers with the power of IDI’s next-generation data fusion platform for investigative, due-diligence, and fraud prevention needs, all in the palm of their hands.

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

(In thousands)	Three Months Ended March 31,	
	2022	2021
Net income (loss)	\$ 107	\$ (578)
Interest (income) expense, net	(1)	5
Income tax expense	175	-
Depreciation and amortization	1,534	1,258
Share-based compensation expense	1,387	2,046
Litigation costs	15	120
Write-off of long-lived assets and others	3	20
Adjusted EBITDA	<u>\$ 3,220</u>	<u>\$ 2,871</u>
Revenue	\$ 12,729	\$ 10,217
Net income (loss) margin	<u>1%</u>	<u>(6%)</u>
Adjusted EBITDA margin	<u>25%</u>	<u>28%</u>

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 March 31,	
	2022	2021
Revenue	\$ 12,729	\$ 10,217
Cost of revenue (exclusive of depreciation and amortization)	(3,170)	(2,761)
Depreciation and amortization of intangible assets	(1,472)	(1,203)
Gross profit	<u>8,087</u>	<u>6,253</u>
Depreciation and amortization of intangible assets	1,472	1,203
Adjusted gross profit	<u>\$ 9,559</u>	<u>\$ 7,456</u>
Gross margin	<u>64%</u>	<u>61%</u>
Adjusted gross margin	<u>75%</u>	<u>73%</u>

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

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

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

Results of Operations

Three months ended March 31, 2022 compared to three months ended March 31, 2021

Revenue. Revenue increased \$2.5 million or 25% to \$12.7 million for the three months ended March 31, 2022 from \$10.2 million for the three months ended March 31, 2021. Base revenue from existing customers increased \$2.4 million or 32%, growth revenue from existing customers increased \$0.1 million or 5%, and revenue from new customers increased \$0.05 million or 5%. Our ID1 billable customer base grew from 5,902 customers as of March 31, 2021 to 6,592 customers as of March 31, 2022, and our FOREWARN user base grew from 58,831 users to 91,490 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 \$0.4 million or 15% to \$3.2 million for the three months ended March 31, 2022 from \$2.8 million for the three months ended March 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 approximately 47% of our total data acquisition costs for the three months ended March 31, 2022 compared to approximately 45% for the three months ended March 31, 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 25% for the three months ended March 31, 2022 from 27% for the three months ended March 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 \$0.2 million or 8% to \$2.4 million for the three months ended March 31, 2022 from \$2.2 million for the three months ended March 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 three months ended March 31, 2022 was primarily attributable to an increase of \$0.2 million in salaries and benefits, and sales commissions resulting from increased revenue.

General and administrative expenses. General and administrative expenses increased \$0.8 million or 18% to \$5.4 million for the three months ended March 31, 2022 from \$4.6 million for the three months ended March 31, 2021. For the three months ended March 31, 2022 and 2021, our general and administrative expenses consisted primarily of employee salaries and benefits of \$2.5 million and \$1.5 million, share-based compensation expense of \$1.3 million and \$1.9 million, and professional fees of \$1.0 million and \$0.7 million, respectively.

Depreciation and amortization. Depreciation and amortization expenses increased \$0.2 million or 22% to \$1.5 million for the three months ended March 31, 2022 from \$1.3 million for the three months ended March 31, 2021. The increase in depreciation and amortization for the three months ended March 31, 2022 resulted primarily from the amortization of software developed for internal use that became ready for its intended use after March 31, 2021.

Income (loss) before income taxes. Income before income taxes was \$0.3 million for the three months ended March 31, 2022 compared to a loss of \$0.6 million for the three months ended March 31, 2021. The significant improvement in income before income taxes from a loss 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 \$1.2 million, professional fees of \$0.3 million, and depreciation and amortization of \$0.2 million.

Income taxes. Income tax expense of \$0.2 million and \$0 was recognized for the three months ended March 31, 2022 and 2021, respectively. A valuation allowance on the deferred tax assets was recognized as of March 31, 2022 and 2021, to reduce the deferred tax assets to the amount that is more likely than not to be realized. See Note 6, "Income Taxes," included in "Notes to Condensed Consolidated Financial Statements."

Net income (loss). Net income was \$0.1 million for the three months ended March 31, 2022 compared to a net loss of \$0.6 million for the three months ended March 31, 2021, as a result of the foregoing.

Effect of Inflation

The rates of inflation experienced in recent years have had no material impact on our financial statements. We attempt 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 three months ended March 31, 2022, net cash provided by operating activities was \$2.4 million, primarily the result of the net income of \$0.1 million, adjusted for certain non-cash items (consisting primarily 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 \$3.3 million, and the cash used as a result of changes in assets and liabilities of \$0.9 million, primarily the result of the increase in accounts receivable and prepaid expenses and other current assets, and the decrease in deferred revenue and operating lease liabilities, which was offset by the increase in accounts payable. For the three months ended March 31, 2021, net cash provided by operating activities was \$1.2 million, primarily the result of the net loss of \$0.6 million, adjusted for certain non-cash items, as mentioned above, totaling \$3.5 million, and the cash used as a result of changes in assets and liabilities of \$1.7 million, primarily the result of the increase in accounts receivable and prepaid expenses and other current assets, and the decrease in accounts payable, accrued expenses and other current liabilities and operating lease liabilities.

Cash flows used in investing activities. For the three months ended March 31, 2022 and 2021, net cash used in investing activities was \$1.9 million and \$1.3 million, respectively, primarily as a result of capitalized costs included in intangible assets.

As of March 31, 2022, we had material commitments under certain data licensing agreements of \$31.6 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 \$0.1 million and a net loss of \$0.6 million for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, we had a total shareholders' equity balance of \$71.2 million.

As of March 31, 2022, we had cash and cash equivalents of approximately \$34.8 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.

We further believe that our financial resources will allow us to manage the impact of Covid-19 on the Company's business operations for the foreseeable future. However, subject to revenue growth, our ability to generate positive cash flow, and the potential impact of Covid-19, 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

As of March 31, 2022, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Item 3. 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 required by this item.

Item 4. 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 March 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 March 31, 2022.

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 fiscal quarter ended March 31, 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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not currently a party to any legal proceeding, investigation or claim which, in the opinion of the management, is likely to have a material adverse effect on the business, financial condition, results of operations or cash flows. Legal fees associated with any legal proceedings, are expensed as incurred. We review legal proceedings and claims on an ongoing basis and follow appropriate accounting guidance, including Accounting Standards Codification ("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.

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 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 9, 2022.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
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

* 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 of 1933, as amended, or the Exchange Act.

SIGNATURES

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

May 4, 2022

Red Violet, Inc.

By: /s/ Daniel MacLachlan
Daniel MacLachlan
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Derek Dubner, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Red Violet, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 4, 2022

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

CERTIFICATIONS

I, Daniel MacLachlan, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Red Violet, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 4, 2022

By: /s/ Daniel MacLachlan
Daniel MacLachlan
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT
TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of Red Violet, Inc. for the quarter ended March 31, 2022 (the “Report”), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge and belief, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Red Violet, Inc.

May 4, 2022

By: /s/ Derek Dubner

Derek Dubner
Chief Executive Officer
(Principal Executive Officer)

The certification set forth above is being furnished as an Exhibit solely pursuant to Section 906 of the Sarbanes—Oxley Act of 2002 and is not being filed as part of the Report or as a separate disclosure document of Red Violet, Inc. or the certifying officers.

**CERTIFICATION PURSUANT
TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of Red Violet, Inc. for the quarter ended March 31, 2022 (the "Report"), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge and belief, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Red Violet, Inc.

May 4, 2022

By: /s/ Daniel MacLachlan
Daniel MacLachlan
Chief Financial Officer
(Principal Financial and Accounting Officer)

The certification set forth above is being furnished as an Exhibit solely pursuant to Section 906 of the Sarbanes—Oxley Act of 2002 and is not being filed as part of the Report or as a separate disclosure document of Red Violet, Inc. or the certifying officers.
