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 September 30, 2024

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	**82-2408531**
(State or Other Jurisdiction of Incorporation or Organization)	**(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 November 1, 2024, the registrant had 13,791,652 shares of common stock outstanding.

RED VIOLET, INC.
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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)

	September 30, 2024	December 31, 2023
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 35,747	$ 32,032
Accounts receivable, net of allowance for doubtful accounts of $238 and $159 as of September 30, 2024 and December 31, 2023, respectively	8,459	7,135
Prepaid expenses and other current assets	1,730	1,113
Total current assets	45,936	40,280
Property and equipment, net	581	592
Intangible assets, net	35,731	34,403
Goodwill	5,227	5,227
Right-of-use assets	2,045	2,457
Deferred tax assets	7,463	9,514
Other noncurrent assets	987	517
Total assets	$ 97,970	$ 92,990
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 2,787	$ 1,631
Accrued expenses and other current liabilities	795	1,989
Current portion of operating lease liabilities	469	569
Deferred revenue	565	690
Total current liabilities	4,616	4,879
Noncurrent operating lease liabilities	1,680	1,999
Total liabilities	6,296	6,878
Shareholders' equity:		
Preferred stock—$0.001 par value, 10,000,000 shares authorized, and 0 shares issued and outstanding, as of September 30, 2024 and December 31, 2023	-	-
Common stock—$0.001 par value, 200,000,000 shares authorized, 13,735,387 and 13,980,274 shares issued, and 13,735,387 and 13,970,846 shares outstanding, as of September 30, 2024 and December 31, 2023	14	14
Treasury stock, at cost, 0 and 9,428 shares as of September 30, 2024 and December 31, 2023	-	(188)
Additional paid-in capital	93,393	94,159
Accumulated deficit	(1,733)	(7,873)
Total shareholders' equity	91,674	86,112
Total liabilities and shareholders' equity	$ 97,970	$ 92,990

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue	$ 19,057	$ 15,837	$ 55,624	$ 45,143
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization)	3,314	3,313	10,525	9,732
Sales and marketing expenses	4,817	3,365	12,935	10,332
General and administrative expenses	5,994	5,223	17,534	15,539
Depreciation and amortization	2,434	2,171	7,081	6,141
Total costs and expenses	16,559	14,072	48,075	41,744
Income from operations	2,498	1,765	7,549	3,399
Interest income, net	353	346	1,032	947
Income before income taxes	2,851	2,111	8,581	4,346
Income tax expense (benefit)	1,132	(10,384)	2,441	(10,253)
Net income	$ 1,719	$ 12,495	$ 6,140	$ 14,599
Earnings per share:				
Basic	$ 0.12	$ 0.90	$ 0.44	$ 1.05
Diluted	$ 0.12	$ 0.87	$ 0.43	$ 1.03
Weighted average shares outstanding:				
Basic	13,782,476	13,952,426	13,852,947	13,970,317
Diluted	14,311,575	14,329,878	14,224,285	14,207,673

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	Accumulated	
	Shares	Amount	Shares	Amount	capital	deficit	Total
Balance at June 30, 2023	13,911,691	$ 14	(2,738)	$ (52)	$ 95,104	$ (19,298)	$ 75,768
Vesting of restricted stock units	25,693	-	-	-	-	-	-
Increase in treasury stock resulting from shares withheld to cover statutory taxes	-	-	(7,237)	(147)	-	-	(147)
Common stock repurchased	-	-	(15,019)	(311)	-	-	(311)
Retirement of treasury stock	(17,014)	-	17,014	342	(342)	-	-
Share-based compensation	-	-	-	-	1,886	-	1,886
Net income	-	-	-	-	-	12,495	12,495
Balance at September 30, 2023	13,920,370	$ 14	(7,980)	$ (168)	$ 96,648	$ (6,803)	$ 89,691
Balance at June 30, 2024	13,744,189	$ 14	(12,804)	$ (236)	$ 91,672	$ (3,452)	$ 87,998
Vesting of restricted stock units	5,078	-	-	-	-	-	-
Increase in treasury stock resulting from shares withheld to cover statutory taxes	-	-	(1,076)	(28)	-	-	(28)
Retirement of treasury stock	(13,880)	-	13,880	264	(264)	-	-
Share-based compensation	-	-	-	-	1,985	-	1,985
Net income	-	-	-	-	-	1,719	1,719
Balance at September 30, 2024	13,735,387	$ 14	-	$ -	$ 93,393	$ (1,733)	$ 91,674

	Common stock		Treasury stock		Additional paid-in	Accumulated	
	Shares	Amount	Shares	Amount	capital	deficit	Total
Balance at December 31, 2022	13,956,404	$ 14	-	$ -	$ 92,481	$ (21,402)	$ 71,093
Vesting of restricted stock units	35,893	-	-	-	-	-	-
Increase in treasury stock resulting from shares withheld to cover statutory taxes	-	-	(9,870)	(197)	-	-	(197)
Common stock repurchased	-	-	(70,037)	(1,251)	-	-	(1,251)
Retirement of treasury stock	(71,927)	-	71,927	1,280	(1,280)	-	-
Share-based compensation	-	-	-	-	5,447	-	5,447
Net income	-	-	-	-	-	14,599	14,599
Balance at September 30, 2023	13,920,370	$ 14	(7,980)	$ (168)	$ 96,648	$ (6,803)	$ 89,691
Balance at December 31, 2023	13,980,274	$ 14	(9,428)	$ (188)	$ 94,159	$ (7,873)	$ 86,112
Vesting of restricted stock units	80,187	-	-	-	-	-	-
Increase in treasury stock resulting from shares withheld to cover statutory taxes	-	-	(22,902)	(431)	-	-	(431)
Common stock repurchased	-	-	(292,744)	(5,809)	-	-	(5,809)
Retirement of treasury stock	(325,074)	-	325,074	6,428	(6,428)	-	-
Share-based compensation	-	-	-	-	5,662	-	5,662
Net income	-	-	-	-	-	6,140	6,140
Balance at September 30, 2024	13,735,387	$ 14	-	$ -	$ 93,393	$ (1,733)	$ 91,674

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2024	**2023**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,140	$ 14,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,081	6,141
Share-based compensation expense	4,452	4,058
Write-off of long-lived assets	82	4
Provision for bad debts	323	913
Noncash lease expenses	412	444
Deferred income tax expense (benefit)	2,051	(10,308)
Changes in assets and liabilities:		
Accounts receivable	(1,647)	(2,183)
Prepaid expenses and other current assets	(617)	(407)
Other noncurrent assets	(470)	(26)
Accounts payable	1,156	(240)
Accrued expenses and other current liabilities	(1,150)	(1,473)
Deferred revenue	(125)	(143)
Operating lease liabilities	(419)	(512)
Net cash provided by operating activities	17,269	10,867
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(152)	(98)
Capitalized costs included in intangible assets	(7,118)	(6,921)
Net cash used in investing activities	(7,270)	(7,019)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Taxes paid related to net share settlement of vesting of restricted stock units	(431)	(197)
Repurchases of common stock	(5,853)	(1,251)
Net cash used in financing activities	(6,284)	(1,448)
Net increase in cash and cash equivalents	$ 3,715	$ 2,400
Cash and cash equivalents at beginning of period	32,032	31,810
Cash and cash equivalents at end of period	$ 35,747	$ 34,210
SUPPLEMENTAL DISCLOSURE INFORMATION:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ 524	$ 55
Share-based compensation capitalized in intangible assets	$ 1,210	$ 1,389
Retirement of treasury stock	$ 6,428	$ 1,280
Right-of-use assets obtained in exchange of operating lease liabilities	$ -	$ 1,919
Operating lease liabilities arising from obtaining right-of-use assets	$ -	$ 1,919

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, 2024.

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, 2023 filed with the SEC on March 7, 2024 ("Form 10-K").

The condensed consolidated balance sheet as of December 31, 2023 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

In November 2023, the Financial Accounting Standard Board (the "FASB") issued Accounting Standard Updates ("ASU") No. 2023-07, "*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07")*," which requires a public entity to disclose significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), a description of other segment items by reportable segment, and an explanation of any additional measures the CODM uses in deciding how to allocate resources, and extend nearly all annual segment reporting requirements to quarterly reporting requirements. In addition, entities with a single reportable segment must now provide all segment disclosures required in Accounting Standard Codification ("ASC") 280, including the new disclosures for reportable segments under the amendments in ASU 2023-07. The new guidance is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, and early adoption is permitted. The guidance will be applied on a retrospective basis, with such disclosures to be made in regard to all prior periods presented in the financial statements. The Company is currently evaluating the impact of adopting this ASU on its condensed consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU No. 2023-09, "*Income Taxes (Topic 740): Improvements to Income Tax Disclosures (ASU 2023-09)*," which improves the transparency of income tax disclosures by requiring consistent categories and greater disaggregation of information in the effective tax rate reconciliation and income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. This guidance will be effective for the annual periods beginning after December 31, 2024. Early adoption is permitted. Upon adoption, the guidance can be applied prospectively or retrospectively. The Company is currently evaluating the guidance to determine its impact on our condensed consolidated financial statements and related disclosures.

2. Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock 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 unvested shares.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except share data)	**2024**	**2023**	**2024**	**2023**
Numerator:				
Net income	$ 1,719	$ 12,495	$ 6,140	$ 14,599
Denominator:				
Weighted average shares outstanding:				
Basic	13,782,476	13,952,426	13,852,947	13,970,317
Diluted[(1)]	14,311,575	14,329,878	14,224,285	14,207,673
Earnings per share:				
Basic	$ 0.12	$ 0.90	$ 0.44	$ 1.05
Diluted	$ 0.12	$ 0.87	$ 0.43	$ 1.03

(1)For the three and nine months ended September 30, 2024 and 2023, diluted weighted average shares outstanding are calculated by the inclusion of unvested restricted stock units ("RSUs").

3. Intangible assets, net

Intangible assets other than goodwill consist of the following:

		September 30, 2024			December 31, 2023		
(In thousands)	**Amortization period**	**Gross amount**	**Accumulated amortization**	**Net**	**Gross amount**	**Accumulated amortization**	**Net**
Software developed for internal use	5-10 years	$ 71,712	$ (35,981)	$ 35,731	$ 63,545	$ (29,142)	$ 34,403

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 $2,382 and $2,112 for the three months ended September 30, 2024 and 2023, respectively, and $6,918 and $5,965 for the nine months ended September 30, 2024 and 2023, respectively, were included in depreciation and amortization expense. As of September 30, 2024, intangible assets of $5,939, 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 $2,708 and $2,929 during the three months ended September 30, 2024 and 2023, respectively, and $8,328 and $8,310 during the nine months ended September 30, 2024 and 2023, respectively.

As of September 30, 2024, estimated amortization expense related to the Company's intangible assets for the remainder of 2024 through 2029 and thereafter are as follows:

(In thousands)	
Year	**September 30, 2024**
Remainder of 2024	$ 2,448
2025	9,748
2026	8,361
2027	6,745
2028	4,313
2029 and thereafter	4,116
Total	$ 35,731

4. Goodwill

Goodwill represents the cost in excess of the fair value of the net assets acquired in a business combination. As of September 30, 2024 and December 31, 2023, 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.

The Company did not record a goodwill impairment loss during the three and nine months ended September 30, 2024 and 2023, and there was no accumulated goodwill impairment loss as of September 30, 2024.

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. 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 September 30, 2024, the current and noncurrent portion unbilled accounts receivable of $918 and $892, respectively, were included within accounts receivable and other noncurrent assets, respectively, on the condensed consolidated balance sheets. As of December 31, 2023, the current and noncurrent portion unbilled accounts receivable of $829 and $371, respectively, were included within accounts receivable and other noncurrent assets, respectively, on the consolidated balance sheets. The Company's revenue arrangements do not contain significant financing components.

For the three months ended September 30, 2024 and 2023, 77% and 79% of total revenue was attributable to customers with pricing contracts, respectively, versus 23% and 21% attributable to transactional customers, respectively. For the nine months ended September 30, 2024 and 2023, 76% and 78% of total revenue was attributable to customers with pricing contracts, respectively, versus 24% and 22% 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 September 30, 2024 and December 31, 2023, the balance of deferred revenue was $565 and $690, 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, 2023, $147 and $577 was recognized into revenue during the three and nine months ended September 30, 2024, respectively.

As of September 30, 2024, $22,098 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, $3,284 of revenue will be recognized in the remainder of 2024, $9,946 in 2025, $5,207 in 2026, $3,252 in 2027, $364 in 2028, and $45 in 2029. 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. Prior to the third quarter of 2023, primarily due to cumulative pre-tax losses, management determined a full valuation allowance was necessary to reduce the deferred tax assets to the amount that is more likely than not to be realized. During the third quarter of 2023, the Company released the valuation allowance previously recorded on its deferred tax assets. The Company concluded that, due to its established historical cumulative positive income before income taxes plus permanent differences for the recent years, projections of future taxable income, and the reversal of taxable temporary differences, the realization of deferred tax assets as of September 30, 2024 was more likely than not.

The Company's effective income tax rate was 40% and (492%) for the three months ended September 30, 2024 and 2023, respectively, and 28% and (236%) for the nine months ended September 30, 2024 and 2023, respectively, differing from the U.S. corporate statutory federal income tax rate of 21%. The difference for the three and nine months ended September 30, 2024 was primarily the effect of state income taxes and certain nondeductible permanent differences, partially offset by the utilization of research and development tax credits. The difference for the three and nine months ended September 30, 2023 was primarily the result of release of the valuation allowance, recognition of research and development tax credit, state income taxes and permanent differences.

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 material unrecognized tax benefits as of September 30, 2024 and December 31, 2023.

7. Common stock and treasury stock

As of September 30, 2024 and December 31, 2023, the number of issued shares of common stock was 13,735,387 and 13,980,274, respectively, which included shares of treasury stock of 0 and 9,428, respectively. The changes in the number of issued shares of common stock and treasury stock were due to the following factors:

•An aggregate of 80,187 shares of common stock were issued as a result of the vesting of RSUs, of which, 22,902 shares of common stock were withheld to pay withholding taxes upon such vesting, which were reflected in treasury stock, with a cost of $431. Related treasury stock of 22,902 shares was then retired during the nine months ended September 30, 2024.

•On May 2, 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, and subsequently on each of December 19, 2023 and March 28, 2024, the board of directors authorized the repurchase of an additional $5.0 million of the Company's common stock (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 nine months ended September 30, 2024, the Company repurchased 292,744 shares of common stock under the Stock Repurchase Program, which was reflected in treasury stock, with a cost of $5,809. Related treasury stock of 302,172 shares as a result of the repurchases, with a cost of $5,997, was retired during the nine months ended September 30, 2024, resulting in no treasury stock balance as of September 30, 2024. The Company has $4,577 remaining under the Stock Repurchase Program as of September 30, 2024.

8. 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. Subsequently on June 3, 2020 and May 25, 2022, the Company's stockholders approved amendments to the 2018 Plan to increase the number of shares of common stock authorized for issuance under the 2018 Plan to 4,500,000 shares and 6,500,000 shares, respectively.

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 September 30, 2024, there were 1,908,864 shares of common stock available for future issuance under the 2018 Plan, as amended.

To date, all stock incentives issued under the 2018 Plan, as amended, have been in the form of RSUs. RSUs granted under the 2018 Plan, as amended, 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 nine months ended September 30, 2024 were as follows:

	Number of units	Weighted average grant-date fair value
Unvested as of December 31, 2023	1,017,718	$ 20.10
Granted[(1)]	263,985	$ 19.14
Vested and delivered	(57,285)	$ 24.93
Withheld as treasury stock[(2)]	(22,902)	$ 25.19
Forfeited	(175,394)	$ 17.68
Unvested as of September 30, 2024	1,026,122	$ 19.88

(1)In March 2024, the Company granted 130,000 RSUs, subject to performance-based requirements, to one non-executive employee at a grant date fair value of $18.30 per share. Such RSU grant shall not vest unless and until the Company has achieved certain revenue for a portion of its business prior to December 31, 2030, the last achievement date deadline. No amortization of share-based compensation expense has been recognized for 95,000 RSUs among the above-mentioned grant, because, as of September 30, 2024, the Company determined that it is not probable that related performance criteria will be met. In addition to the 130,000 RSUs discussed above, the Company granted, during the nine months ended September 30, 2024, an aggregate of 133,985 RSUs to certain employees and directors at grant date fair values ranging from $17.00 to $28.50 per share, with a vesting period ranging from one to four years.

(2)Withheld as treasury stock represents shares withheld to pay statutory taxes upon the vesting of RSUs. Refer to Note 7, "Common stock and treasury stock," for details.

As of September 30, 2024, unrecognized share-based compensation expense associated with the granted RSUs amounted to $12,770, which is expected to be recognized over a remaining weighted average period of 2.7 years.

Share-based compensation was allocated to the following accounts in the condensed consolidated financial statements for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2024	2023	2024	2023
Sales and marketing expenses	$ 148	$ 116	$ 444	$ 348
General and administrative expenses	1,509	1,253	4,008	3,710
Share-based compensation expense	1,657	1,369	4,452	4,058
Capitalized in intangible assets	328	517	1,210	1,389
Total	$ 1,985	$ 1,886	$ 5,662	$ 5,447

9. Leases

The Company leases its corporate headquarters of 21,020 rentable square feet in accordance with a non-cancellable 89-month operating lease agreement as amended and effective in January 2017, with an option to extend for an additional 60 months. On September 20, 2023, the Company entered into an amendment to its corporate headquarters lease agreement to exercise the extension option for an additional 60 months through June 30, 2029 (the "Amended Lease"), with an option to further 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 and nine months ended September 30, 2024 and 2023, a summary of the Company's lease information is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Lease cost:				
Operating lease costs	$ 194	$ 168	$ 583	$ 504
Other information:				
Cash paid for operating leases	$ 199	$ 192	$ 589	$ 573
Right-of-use assets obtained in exchange for operating lease liabilities[1]	$ -	$ 1,919	$ -	$ 1,919
Weighted average discount rate for operating leases[2]	-	10%	-	10%

(1)The Amended Lease resulted in an addition of $1,919 to right-of-use assets and operating lease liabilities, as of September 20, 2023 (the "Remeasurement Date").

(2)The Company used 10%, its estimated incremental borrowing rate for similar secured assets, as the discount rate for the Amended Lease 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 the Remeasurement Date.

As of September 30, 2024, the weighted average remaining operating lease term was 4.5 years.

As of September 30, 2024, scheduled future maturities and present value of the operating lease liabilities are as follows:

(In thousands)	
Year	**September 30, 2024**
Remainder of 2024	201
2025	580
2026	519
2027	535
2028	551
2029 and thereafter	279
Total maturities	$ 2,665
Present value included in condensed consolidated balance sheet:	
Current portion of operating lease liabilities	$ 469
Noncurrent operating lease liabilities	1,680
Total operating lease liabilities	$ 2,149
Difference between the maturities and the present value of operating lease liabilities	$ 516

10. Commitments and contingencies

(a) Capital commitment

The Company incurred data costs of $2,328 and $2,367 for the three months ended September 30, 2024 and 2023, respectively, and $7,168 and $7,086 for the nine months ended September 30, 2024 and 2023, under certain data licensing agreements. As of September 30, 2024, material capital commitments under certain data licensing agreements were $15,215, shown as follows:

(In thousands)	
Year	**September 30, 2024**
Remainder of 2024	$ 2,183
2025	8,349
2026	4,512
2027	171
Total	$ 15,215

(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.

In addition to the foregoing, 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.

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. These factors include those contained in this 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, 2023 filed on March 7, 2024 ("Form 10-K"), and other filings we make with the Securities and Exchange Commission (the "SEC"). 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.

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., 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 identity verification, risk mitigation, due diligence, fraud detection and prevention, regulatory compliance, and customer acquisition. Our AI/ML-driven identity intelligence 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 a vast array of 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 an expansive and diverse set of industries 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, but not limited to, due diligence, risk mitigation, identity authentication, and regulatory compliance, by financial services companies, insurance companies, healthcare companies, law enforcement and government, identity verification platforms, 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 September 30, 2024 and 2023, IDI had 8,743 and 7,769 billable customers and FOREWARN had 284,967 and 168,356 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 three months ended September 30, 2024 and 2023, 77% and 79% of total revenue was attributable to customers with pricing contracts, respectively, versus 23% and 21% attributable to transactional customers, respectively. For the nine months ended September 30, 2024 and 2023, 76% and 78% of total revenue was attributable to customers with pricing contracts, respectively, versus 24% and 22% 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.

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 revenue recognition, 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."

Third Quarter Financial Results

For the three months ended September 30, 2024 as compared to the three months ended September 30, 2023:

•Total revenue increased 20% to $19.1 million.

•Gross profit increased 28% to $13.4 million. Gross margin increased to 70% from 66%.

•Adjusted gross profit increased 26% to $15.7 million. Adjusted gross margin increased to 83% from 79%.

•Net income was $1.7 million compared to $12.5 million (inclusive of a one-time deferred income tax benefit of $10.3 million), which resulted in earnings of $0.12 per basic and diluted share. Net income margin decreased to 9% from 79%.

•Adjusted EBITDA increased 25% to $6.7 million. Adjusted EBITDA margin increased to 35% from 34%.

•Adjusted net income increased 23% to $3.2 million, which resulted in adjusted earnings of $0.23 and $0.22 per basic and diluted share, respectively.

•Net cash provided by operating activities increased 25% to $7.2 million.

•Cash and cash equivalents were $35.7 million as of September 30, 2024.

Third Quarter and Recent Business Highlights

•Added 266 customers to IDI during the third quarter, ending the quarter with 8,743 customers.

•Added 21,091 users to FOREWARN during the third quarter, ending the quarter with 284,967 users. Over 500 REALTOR® Associations throughout the U.S. are now contracted to use FOREWARN.

•Purchased 292,744 shares of the Company's common stock year to date at an average price of $19.81 per share pursuant to the Company's $15.0 million Stock Repurchase Program, as amended, that was initially authorized on May 2, 2022. The Company has $4.6 million remaining under the Stock Repurchase Program.

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 net income, adjusted earnings per share, adjusted gross profit, adjusted gross margin, and free cash flow ("FCF"). Adjusted EBITDA is a non-GAAP financial measure equal to net income, the most directly comparable financial measure based on US GAAP, excluding interest income, net, income tax expense (benefit), depreciation and amortization, share-based compensation expense, litigation costs, and write-off of long-lived assets and others. We define adjusted EBITDA margin as adjusted EBITDA as a percentage of revenue. Adjusted net income is a non-GAAP financial measure equal to net income, the most directly comparable financial measure based on US GAAP, excluding share-based compensation expense, amortization of share-based compensation capitalized in intangible assets, and discrete tax items, and including the tax effect of adjustments. We define adjusted earnings per share as adjusted net income divided by the weighted average shares outstanding. 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.

The following is a reconciliation of net income, the most directly comparable US GAAP financial measure, to adjusted EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Net income	$ 1,719	$ 12,495	$ 6,140	$ 14,599
Interest income, net	(353)	(346)	(1,032)	(947)
Income tax expense (benefit)	1,132	(10,384)	2,441	(10,253)
Depreciation and amortization	2,434	2,171	7,081	6,141
Share-based compensation expense	1,657	1,369	4,452	4,058
Litigation costs	7	1	7	49
Write-off of long-lived assets and others	82	56	89	58
Adjusted EBITDA	$ 6,678	$ 5,362	$ 19,178	$ 13,705
Revenue	$ 19,057	$ 15,837	$ 55,624	$ 45,143
Net income margin	9%	79%	11%	32%
Adjusted EBITDA margin	35%	34%	34%	30%

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

(Dollars in thousands, except share data)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Net income	$ 1,719	$ 12,495	$ 6,140	$ 14,599
Share-based compensation expense	1,657	1,369	4,452	4,058
Amortization of share-based compensation capitalized in intangible assets	292	249	853	706
Discrete tax items[1]	-	(10,272)	-	(10,272)
Tax effect of adjustments[2]	(518)	(1,275)	(1,251)	(1,275)
Adjusted net income	$ 3,150	$ 2,566	$ 10,194	$ 7,816
Earnings per share:				
Basic	$ 0.12	$ 0.90	$ 0.44	$ 1.05
Diluted	$ 0.12	$ 0.87	$ 0.43	$ 1.03
Adjusted earnings per share:				
Basic	$ 0.23	$ 0.18	$ 0.74	$ 0.56
Diluted	$ 0.22	$ 0.18	$ 0.72	$ 0.55
Weighted average shares outstanding:				
Basic	13,782,476	13,952,426	13,852,947	13,970,317
Diluted	14,311,575	14,329,878	14,224,285	14,207,673

(1) During the three months ended September 30, 2023, $10.3 million of income tax benefit was recognized as a result of the release of the valuation allowance previously recorded on our deferred tax asset and the cumulative research and development tax credit, which were excluded to calculate the adjusted net income.

(2) The tax effect of adjustments is calculated using the expected federal and state statutory tax rate. The expected federal and state income tax rate was approximately 26.00% for the three and nine months ended September 30, 2024, and 25.75% for the three and nine months ended September 30, 2023.

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

(Dollars in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Revenue	$ 19,057	$ 15,837	$ 55,624	$ 45,143
Cost of revenue (exclusive of depreciation and amortization)	(3,314)	(3,313)	(10,525)	(9,732)
Depreciation and amortization of intangible assets	(2,382)	(2,112)	(6,918)	(5,965)
Gross profit	13,361	10,412	38,181	29,446
Depreciation and amortization of intangible assets	2,382	2,112	6,918	5,965
Adjusted gross profit	$ 15,743	$ 12,524	$ 45,099	$ 35,411
Gross margin	70%	66%	69%	65%
Adjusted gross margin	83%	79%	81%	78%

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

(Dollars in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Net cash provided by operating activities	$ 7,247	$ 5,789	$ 17,269	$ 10,867
Less:				
Purchase of property and equipment	(35)	(47)	(152)	(98)
Capitalized costs included in intangible assets	(2,380)	(2,412)	(7,118)	(6,921)
Free cash flow	$ 4,832	$ 3,330	$ 9,999	$ 3,848

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 net income, adjusted earnings per share, 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 net income, adjusted earnings per share, 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. We believe adjusted net income provides additional means of evaluating period-over-period operating performance by eliminating certain non-cash expenses and other items that might otherwise make comparisons of our ongoing business with prior periods more difficult and obscure trends in ongoing operations. Adjusted net income is a non-GAAP financial measure equal to net income, excluding share-based compensation expense, and amortization of share-based compensation capitalized in intangible assets, and including the tax effect of adjustments. We define adjusted earnings per share as adjusted net income divided by the weighted average shares outstanding. 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 net income, adjusted earnings per share, 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 net income, adjusted earnings per share, 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.

Results of Operations

Three months ended September 30, 2024 compared to three months ended September 30, 2023

Revenue. Revenue increased $3.3 million or 20% to $19.1 million for the three months ended September 30, 2024 from $15.8 million for the three months ended September 30, 2023. Revenue from new customers increased $0.3 million or 19%, base revenue from existing customers increased $2.9 million or 23%, and growth revenue from existing customers increased $0.1 million or 3%. Our IDI billable customer base grew from 7,769 customers as of September 30, 2023 to 8,743 customers as of September 30, 2024, and our FOREWARN user base grew from 168,356 users to 284,967 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 remained consistent at $3.3 million for the three months ended September 30, 2024 and 2023. 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 48% and 47% of our total data acquisition costs for the three months ended September 30, 2024 and 2023, respectively. Other cost of revenue items include expenses related to third-party infrastructure fees and pertinent personnel costs.

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 17% for the three months ended September 30, 2024 from 21% for the three months ended September 30, 2023. 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 $1.4 million or 43% to $4.8 million for the three months ended September 30, 2024 from $3.4 million for the three months ended September 30, 2023. 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 September 30, 2024 was primarily attributable to the increase of $1.3 million in salaries and benefits, and sales commission.

General and administrative expenses. General and administrative expenses increased $0.8 million or 15% to $6.0 million for the three months ended September 30, 2024 from $5.2 million for the three months ended September 30, 2023. For the three months ended September 30, 2024 and 2023, our general and administrative expenses consisted primarily of employee salaries and benefits of $2.9 million and $2.4 million, respectively, share-based compensation expense of $1.5 million and $1.3 million, respectively, and professional fees of $0.9 million and $0.9 million, respectively.

Depreciation and amortization. Depreciation and amortization expenses increased $0.2 million or 12% to $2.4 million for the three months ended September 30, 2024 from $2.2 million for the three months ended September 30, 2023. The increase in depreciation and amortization for the three months ended September 30, 2024 resulted primarily from the amortization of software developed for internal use that became ready for its intended use after September 30, 2023.

Interest income, net. Interest income, net increased $0.1 million or 1% to $0.4 million for the three months ended September 30, 2024 from $0.3 million for the three months ended September 30, 2023. This was primarily due to interest income earned on investments in certain money market funds.

Income before income taxes. Income before income taxes increased $0.8 million or 35% to $2.9 million for the three months ended September 30, 2024 from $2.1 million for the three months ended September 30, 2023. The increase was primarily attributable to the increase in revenue, and decrease in our cost of revenue as a percentage of revenue, which was partially offset by the increase in employee salaries and benefits and sales commissions of $1.8 million, share-based compensation expense of $0.3 million, and depreciation and amortization of $0.2 million.

Income taxes. Income tax expense of $1.1 million was recognized for the three months ended September 30, 2024 compared to income tax benefit of $10.4 million, inclusive of a one-time deferred income tax benefit of $10.3 million as a result of the release of the valuation allowance previously recorded on deferred tax asset and the cumulative research and development tax credit, for the three months ended September 30, 2023. During the three months ended September 30, 2023, the Company released the valuation allowance previously recorded against its deferred tax assets as the Company concluded that the realization of the deferred tax assets as of September 30, 2023 is more likely than not. See Note 6, "Income taxes," included in "Notes to Condensed Consolidated Financial Statements."

Net income. Net income was $1.7 million for the three months ended September 30, 2024 compared to $12.5 million for the three months ended September 30, 2023, as a result of the foregoing.

Nine months ended September 30, 2024 compared to nine months ended September 30, 2023

Revenue. Revenue increased $10.5 million or 23% to $55.6 million for the nine months ended September 30, 2024 from $45.1 million for the nine months ended September 30, 2023. Revenue from new customers increased $0.7 million or 15%, base revenue from existing customers increased $7.5 million or 21%, and growth revenue from existing customers increased $2.3 million or 42%. Our IDI billable customer base grew from 7,769 customers as of September 30, 2023 to 8,743 customers as of September 30, 2024, and our FOREWARN user base grew from 168,356 users to 284,967 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 $0.8 million or 8% to $10.5 million for the nine months ended September 30, 2024 from $9.7 million for the nine months ended September 30, 2023. 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 45% and 48% of our total data acquisition costs for the nine months ended September 30, 2024 and 2023, respectively. Other cost of revenue items include expenses related to third-party infrastructure fees and pertinent personnel costs.

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 19% for the nine months ended September 30, 2024 from 22% for the nine months ended September 30, 2023. 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 $2.6 million or 25% to $12.9 million for the nine months ended September 30, 2024 from $10.3 million for the nine months ended September 30, 2023. 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 nine months ended September 30, 2024 was primarily attributable to the increase of $2.8 million in salaries and benefits, and sales commission, which was offset by the decrease of $0.6 million in provision for bad debts.

General and administrative expenses. General and administrative expenses increased $2.0 million or 13% to $17.5 million for the nine months ended September 30, 2024 from $15.5 million for the nine months ended September 30, 2023. For the nine months ended September 30, 2024 and 2023, our general and administrative expenses consisted primarily of employee salaries and benefits of $8.5 million and $7.7 million, respectively, share-based compensation expense of $4.0 million and $3.7 million, respectively, and professional fees of $3.1 million and $2.3 million, respectively.

Depreciation and amortization. Depreciation and amortization expenses increased $1.0 million or 15% to $7.1 million for the nine months ended September 30, 2024 from $6.1 million for the nine months ended September 30, 2023. The increase in depreciation and amortization for the nine months ended September 30, 2024 resulted primarily from the amortization of software developed for internal use that became ready for its intended use after September 30, 2023.

Interest income, net. Interest income, net increased $0.1 million or 9% to $1.0 million for the nine months ended September 30, 2024 from $0.9 million for the nine months ended September 30, 2023. This was primarily due to interest income earned on investments in certain money market funds.

Income before income taxes. Income before income taxes increased $4.3 million or 97% to $8.6 million for the nine months ended September 30, 2024 from $4.3 million for the nine months ended September 30, 2023. The increase was primarily attributable to the increase in revenue, decrease in our cost of revenue as a percentage of revenue, and decrease in provision for bad debts of $0.6 million, which was partially offset by the increase in employee salaries and benefits and sales commissions of $3.6 million, share-based compensation expense of $0.4 million, professional fees of $0.8 million, and depreciation and amortization of $1.0 million.

Income taxes. Income tax expense of $2.4 million was recognized for the nine months ended September 30, 2024 compared to income tax benefit of $10.3 million, primarily a one-time deferred income tax benefit as a result of the release of the valuation allowance previously recorded on deferred tax asset and the cumulative research and development tax credit, for the nine months ended September 30, 2023. Beginning from the three months ended September 30, 2023, the Company released the valuation allowance previously recorded against its deferred tax assets as the Company concluded that the realization of the deferred tax assets as of

September 30, 2023 is more likely than not. See Note 6, “Income taxes,” included in “Notes to Condensed Consolidated Financial Statements.”

Net income. Net income was $6.1 million for the nine months ended September 30, 2024 compared to $14.6 million for the nine months ended September 30, 2023, as a result of the foregoing.

Effect of Inflation

We believe that the persistent inflationary pressure throughout 2023 and up to September 30, 2024 has contributed to deteriorating macroeconomic conditions and increased recession fears, causing businesses to slow their spending over the last several months, which have resulted, 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 nine months ended September 30, 2024, net cash provided by operating activities was $17.3 million, primarily the result of the net income of $6.1 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 (benefit)) totaling $14.4 million, and the cash used as a result of changes in assets and liabilities of $3.3 million, primarily the result of the increase in accounts receivable, prepaid expenses and other current assets, and other noncurrent assets, and the decrease in accrued expenses and other current liabilities, and operating lease liabilities, which was partially offset by the increase in accounts payable. For the nine months ended September 30, 2023, net cash provided by operating activities was $10.9 million, primarily the result of the net income of $14.6 million, adjusted for certain non-cash items, as mentioned above, totaling $(1.3) million, and the cash used as a result of changes in assets and liabilities of $5.0 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 nine months ended September 30, 2024 and 2023, net cash used in investing activities was $7.3 million and $7.0 million, respectively, primarily as a result of capitalized costs included in intangible assets.

Cash flows used in financing activities. For the nine months ended September 30, 2024, net cash used in financing activities was $6.3 million, resulting from the taxes paid related to the net share settlement of vesting of RSUs of $0.4 million, and the result of $5.9 million paid in aggregate for the repurchase of common stock pursuant to a stock repurchase program that the board of directors authorized on May 2, 2022 (the "Stock Repurchase Program"), authorizing the repurchase of up to $5.0 million of our common stock. Subsequently on each of December 19, 2023 and March 28, 2024, the board of directors approved the repurchases of an additional $5.0 million of our common stock under the Stock Repurchase Program. For the nine months ended September 30, 2023, net cash used in financing activities was $1.4 million, mainly the result of $1.3 million paid in aggregate for the repurchase of common stock pursuant to the Stock Repurchase Program.

As of September 30, 2024, we had material commitments under certain data licensing agreements of $15.2 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 $1.7 million and $12.5 million (inclusive of a one-time deferred income tax benefit of $10.3 million as a result of the release of valuation allowance previously recorded against our deferred tax assets and the cumulative research and development tax credit) for the three months ended September 30, 2024 and 2023, respectively, and $6.1 million and $14.6 million (inclusive of a one-time deferred income tax benefit of $10.3 million as a result of the release of valuation allowance previously recorded against our deferred tax assets and the cumulative research and development tax credit) for the nine months ended September 30, 2024 and 2023, respectively. As of September 30, 2024, we had a total shareholders’ equity balance of $91.7 million.

As of September 30, 2024, we had cash and cash equivalents of approximately $35.7 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

As of September 30, 2024, we did not have any off-balance sheet arrangements, as defined in Item 303 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 September 30, 2024. 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 September 30, 2024.

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 quarter ended September 30, 2024 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 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 Accounting Standards Codification 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.

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 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, 2023 filed with the SEC on March 7, 2024.

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

Issuer Purchases of Equity Securities

On May 2, 2022, the board of directors of the Company authorized the Stock Repurchase Program to repurchase the Company's common stock from time to time, which was subsequently amended on each of December 19, 2023 and March 28, 2024. 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.

The Company did not repurchase any common stock during the three months ended September 30, 2024 pursuant to the Stock Repurchase Program, and the approximate dollar value of shares that may yet be purchased under the Stock Repurchase Program is $4,576,646.

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 mentioned above.

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.

		Incorporated by Reference				Filed
Exhibit No.	**Exhibit Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Herewith**
31.1	Certification of Chief Executive Officer filed pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Securities 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 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 With Embedded Linkbase Documents.					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).					X

* This certification is deemed furnished and 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.

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.

November 6, 2024

Red Violet, Inc.

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